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SPECIAL ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS

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letters TO THE EDITOR

Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

The way of virtue?

•Just what is G. L. Mehta, the Indian Ambassador, trying to tell us? [CHALLENGE, October 1957, pp. 45-51.] That we should let India take the cash *and* the credit? He seems to be demanding help from the capitalistic West, while at the same time telling us that India's semisocialistic way is the way of virtue. Furthermore, his rambling discussion on the fact that India does not plan on nationalizing industry is just the kind of official denial that often precedes the very action denied.

H. F. STROUD

Columbus, Ohio

The problem of money

•I would like to see you treat the problem of the price of gold. Perhaps you already have. If so, please let me know in what issue and on what page.

There are several questions I have in mind:

Can the U. S. hold the current gold price if sterling holds for an indefinite time? If the British pound should, at $2.80, just "fade away," how would this affect the rest of the world? In a new alignment of monetary values, would the dollar not have to adjust to the new par values? Do you think we will raise the gold value of the dollar in the next few years?

The problem of money is interesting. Could you deal with it in a series of articles?

C. F. ELLIS

Bartlesville, Okla.

Because our crystal ball is no clearer than reader Ellis', we hesitate to answer his specific questions about future trends. However, we share his interest in money, and propose to discuss several monetary problems in future issues.—Ed.

Essential masculine hand

•The fall fashion pictures (that new "grab-bag" look), so many reports on what's wrong with nearly everything (inflation, depression, teen and old-age troubles, unionism, gangsterism and communism) seem pointless and endless.

So many panaceas, nostrums and prescriptions by all kinds of disagreeing doctors. Yet none of them have dared to touch on what may be one of the chief sources of what is troubling mankind—it's womankind. Of course, *not* the sweet dears, themselves, but their faulty, "falsie" attitudes—physical and mental.

We are told that women make 85 per cent of all purchases, own more than half of all property. So, natu-

rally their attitudes are controlling. And, from the pedestals to which the Madison Avenue magicians have elevated them, they ease us along the primrose path of comfort—instead of helping us to face the grim realities of a steadily worsening political and economic situation.

Fashions in clothes, in home decor and conduct (what a change if only "unclipped" instead of "clipped" lawns and beards became considered "fashionable"), and in food fads are only a few examples of the faulty attitudes of the world's most influential "sex-ion."

Greater experts can elaborate—but, meanwhile, all potential heroes should organize. Clear the pretty passengers out of the captain's cabin, and once again firmly place the essential masculine hand on the helm of the ship-of-state.

HAROLD D. MENKEN

Upperville, Va.

The figures speak for themselves. —Ed.

Useful teaching aid

•I find in CHALLENGE many useful ideas for teaching economics. I will use "Economic Reasoning" [CHALLENGE, June-July 1957, pp. 68-72] as a basis for an introductory lecture.

Your magazine is well worth while.

S. P. SCHESTA

Berwyn, Ill.

On drowning mice

•And so: "a mousetrap that dumps the victim into a pool of water by means of a trap-springing platform; it is self-setting and made of polyethylene. . ." [CHALLENGE, October 1957, p. 80.]

God made this poor, poor little creature, even as you and I. And He said: "It is good."

Now, you say there are men who would devise a trap-springing platform to drown all little mice.

Is the deluge necessary? Is it right? Is it less cruel? Or only would that Burns and I so easily see the evil—not on the mouse but on man!

Oh, Disney, graduate of this school, would you too, so do, away with Mickeys and Minnies?

CLAIRE J. LANDAU

New York, N. Y.

We didn't think this item would make such a big splash.—Ed.

Festival fan

•"Festival Fever," by Hy Hollinger, [CHALLENGE, August - September 1957, pp. 71-72] states that "more than three dozen communities in 14 states are marking their 100th anniversary celebrations this year."

Can I get a list of these festivals, and some information about them?

I would appreciate your help.

GEORGE H. COPELAND

Great Neck, N. Y.

Such a list may be obtained by writing to: Mr. Robert Meyer, Jr., Festival Information Service, 30 East 30th Street, New York, N. Y. —Ed.

Joyful reader

•This is indeed a great magazine! I enjoy reading it immensely.

SERGE J. ENNI

Jackson Heights, N. Y.

Leaving the fold

•Please cancel my subscription to CHALLENGE. I don't find the magazine interesting, informative or challenging.

JOHN HOLT

Carbondale, Colo.

a personal note

from the editor

Science is science,
and that is not everything

WE HAVE entered an age in which no one can meaningfully say, "The sky is the limit." Modern science and technology have closed the books on whatever connotation that phrase held before *Sputniks* I and II soared out of this world. And whenever man's conquest of his physical environment begins to outrun his vernacular, it is time to consider the grave consequences to his mental horizons and well-being.

It is somewhat out of step now to suggest that we start putting some of our best brains to work on the nonphysical sciences. All the talk these days is about turning out more mathematicians, physicists, engineers, and the like. I fear, however, that unless we pay at least equal attention to the somewhat less calibrated fields of study, we shall find ourselves in a far more embarrassing situation than merely and temporarily falling behind the Russians in the development of space vehicles.

The fact is that the physical sciences for many years now have been moving faster than man's propensity to adjust his habits and institutions. The recently joined competition for the conquest of space is going to aggravate further an already unbalanced quest for knowledge. If "cultural lag" had any meaning before the *Sputniks,* we now stand on the threshold of "cultural rout" if we do not do something to redress the balance.

As social beings, we have fallen two hundred years behind the scientific tide of the times. This is an appropriate season of year to reflect on this sobering fact. I humbly offer this personal note as a sort of season's greeting, holiday wish and resolution for the new year. May we find the hope and inspiration to close the gap between our knowledge of our social world and our knowledge of our physical world. May we have the will and strength of purpose to pursue this task. May we find joy and happiness in the work marked "Still to be done." May we live in peace.

The man who considers himself to be average, thereby trusting

greater minds than his own to solve the problems of the world, is committing a singular disservice to himself *and* to his world. In most ways we are all average men, and by far most of us can rise above the average in only one endeavor, possibly two—and then only if we have taken advantage of every gift bestowed upon us. And so it falls to all of us to recognize that something is wrong with the world society in general and with our own society in particular. It falls to the average man to attempt to define what the trouble is. Once this is done, those who are gifted can be called upon to rise above the average for their moment of glory to exercise their special capacities.

Time is now short. It does not take an "unusual" average man to see that we are headed for disaster unless we can develop new techniques and methods that can induce us to live with one another in peace. Would it be too much to suggest that while we are re-examining the science programs of our schools, we re-examine the social science curricula as well? While we engage in the great hunt for scientific talent, is it not equally important that we hunt for young people who would make good teachers, good diplomats, good economists, good sociologists, good journalists, good artists, scholars, philosophers, and so on and so forth? The whole gamut of human endeavor, indeed! This is the only way we can develop the leadership that will find the approaches to world peace.

The extra effort on our part will rub off on other peoples. This is a very small world now, one in which action and reaction thousands of miles apart can have a total effect on the globe. One nation, whose people rise to the occasion as one man, can work miracles. We can use in the United States the fervor that makes revolutions. Too much of this fervor is on the other side of the Iron Curtain. Our revolutionary approach, in order to be constructive, must really be a renaissance. It can come out of our willingness to encourage the best that we have to offer—the best that is in our people—not only in the way of material and scientific achievements, but in the intellectual and social content of American life as well.

If we must be practical, we can say that we shall be in a better position to make friends and influence enemies. If we want to be idealists, we can say that the chances for world peace will be enhanced. If we are moved only by patriotism, we can say that our country will be an even better place in which to live. But however you see it, keep in mind that science alone can be a perverse monkey wrench if cultural guidance and constructive uses are lacking.—H.B.

Challenge Notes

Sputnik and the "usefulness" of science; insuring investments

SPUTNIKS I and II effectively demolish the widespread myth that a high level of consumer technology is a necessary condition for scientific progress. The average Soviet citizen has probably never seen a TV set; does not own a car, and knows nothing of such conveniences as washing machines, automatic dishwashers, pressure cookers, etc. Away from the job, Ivan's life has been remarkably little affected by the Industrial Revolution.

Clearly, scientific achievement does not depend upon the ability to consume technical gadgets but upon the quality of a nation's scientific brain power.

Contrary to some popular notions, scientific brain power is not at all the same thing as technical know-how. Technical know-how may help us fix our car engine or even build a new one; it will not, however, enable us to build a new *kind* of engine. For that, we need the scientist who is not interested in building or making any particular thing, but in understanding the natural laws which make that thing possible. Technical progress without basic scientific progress is impossible.

In our consumer-oriented economy there is a tendency to overlook this distinction. Immediate utility and marketability has tended to become an ideal in areas where it often has no place.

Thus, we even want our religion and political ideals to be "useful," to "do something for us." Little wonder if the scientist, who "merely" wants to find out the truth about nature, is less highly regarded than the engineer who transforms the scientist's discoveries into marketable commodities.

If *Sputnik* will teach us that truth is, in fact, the most useful (if not marketable) commodity there is, it will have performed a signal service for U. S. society.

Insuring investments

FOR THE last 10 years, the U. S. government has been engaged

in a new kind of program. It has set up an insurance operation whereby the government guarantees overseas investments against certain specified risks which private insurance companies generally refuse to underwrite. As presently set up, the program which is administered by the International Cooperation Administration, insures American overseas investments against currency inconvertibility, expropriation and, since 1956, losses arising from the destruction of foreign facilities in times of war. A flat premium rate of 0.5 per cent is charged for each of these three types of guarantees.

This program has been subjected to considerable criticism recently. While it is true that the Investment Guarantees Program has insured 180 million dollars' worth of American overseas investments in 18 countries, the ICA has agreements with 19 other countries where U. S. investors have not yet availed themselves of this new "opportunity." Although many blue ribbon companies are participating in the program, even sympathetic observers will admit that the program has not been able to arouse very much enthusiasm so far.

We submit that this lack of enthusiasm is no cause for surprise. From a strictly economic point of view, the belief that an insurance program of this kind can seriously affect the flow of international capital is highly questionable. Thus, it is doubtful that any substantial portion of the 180 million dollars of foreign investment that ICA has thus far insured were made *because* of the ICA program. Certainly, no company decides to invest just because it has some security against some risks—a security for which it must pay rather dearly. A company, after all, seeks profits and growth opportunities, as well as security. Like the man with a fire or accident insurance policy, it hopes that the insurance company will never have to pay off.

A crucial problem

This is not to say that programs like the ICA are completely useless. Some private capital has clearly gone into areas where it might not have gone without such a program. The problem of diverting private capital into "underdeveloped" areas is, moreover, a crucial one. Certainly, it is to the interest of the United States to do everything in its power to facilitate such a flow. But more will have to be done by both the American overseas investor and the recipient countries to establish the mutual confidence and trust without which no substantial rechanneling of capital funds is to be expected.—M.K.

WHAT IS Inflation?

by Albert G. Hart

Inflation has assumed many roles and been called many names in the past

"INFLATION" is one of those words that pick up so many overtones of meaning that they are in danger of becoming incantations rather than sober descriptions of facts. When you try to establish a definition for practical use, it is tempting to crowd a great deal of this extra meaning into the definition. The amateur in semantics is likely to link inflation, which everybody agrees is a bad thing, to something he may be against, such as paper money, the use of bank credit for speculation or government deficits. This temptation must be resisted.

The best working definition of inflation is: *a process that raises price levels.* Defining it like this, we can graft on adjectives to describe the intensity or mechanism of particular kinds of inflation. We can talk about creeping or galloping inflation, demand-pull or cost-push inflation, paper money or bank-credit inflation and chronic or transitory inflation. Such precisions will clarify the reality of the phenomenon.

The most drastic form of inflation is what monetary experts call "hyperinflation." This means a rise of prices so rapid that most of the power to buy commodities can evaporate off a piece of paper money or a "dollar in the bank" in a short time. A Swedish traveler who was in Germany at the height of the hyperinflation after World War I, was advised by a friend to pick up a great bargain at a department store—a good ready-made suit for a million marks, then equivalent to about $2.50 worth of Swedish currency. When he got to the store, he found that his friend's information of

yesterday was out of date: the suit was priced at 1,200,000 marks. But the price of Swedish currency had gone up too, so that it took only two dollars worth of Swedish money to get 1,200,000 marks and buy the suit.

Hyperinflation has happened rather often in countries where governments could not collect enough in taxes and resorted to printing money to pay expenses. It is a typical consequence of catastrophic military defeats and their aftermath, as was the case in Germany and central Europe after World War I, in the American Confederacy in 1865 or in China after the war when the Nationalist government lost its grip. Of course, hyperinflation wipes out the value not only of currency holdings but of claims stated in currency units—bonds, savings accounts, mortgages and annuities. At the same time, it makes a present to debtors of the part of their property holdings which they acquired by borrowing at the bank against inventory or by taking out a mortgage on a house.

A milder version of the same thing has happened also in such painfully victorious countries as France. After an inflation of this sort, a country retains its old monetary unit—the French franc and Italian lira, for example, have been preserved—while after a real hyperinflation it is often necessary to set up an entirely new unit, like the Austrian schilling of the interwar years. But although a certain historic continuity with the old currency is preserved, the results of hyperinflation remain substantially unchanged. From the standpoint of a retired man living on an annuity, it does not matter very much if inflation has cancelled 90 per cent instead of 99.99 per cent of it. Either way, he has to find a new basis for his livelihood.

Even in such relatively disciplined and well-managed countries as the United States and Great Britain, serious wars entail some inflation. Both these countries roughly doubled their price levels during and just after both World Wars.

History is full of cases where wartime inflations have been met by efforts at price control. Until recently, almost all such efforts were resounding failures. But during and after World War II, a number of countries including the United States succeeded in controlling prices across a broad front for several years. This experience has added a new term to the economic lexicon: *repressed inflation.* This is a situation where the price-level-raising process is at work, but its effects on prices are re-

Albert G. Hart is Professor of Economics at Columbia University.

moved or reduced by enforcement of price ceilings. This situation typically gives rise to an "inflationary gap"—that is, the difference or gap between the amount buyers stand ready to spend on the current flow of output and what the output is worth at the prices sellers are allowed to charge.

Voluntary action

Repressed inflation can also result from the voluntary action of sellers, but usually it is the result of government price controls. Students of inflation agree that any strong and long-continued price-level-raising process requires an expansion in the stock of money, including coin, paper money and bank deposits circulating by check. There have been a few instances of inflations with a constant money supply and a declining supply of goods (for example, in medieval cities under siege), but most inflations come when the flow of goods is maintained or even increasing. Any price-raising process usually involves an increased flow of spending. Up to a point, and for a time, increased spending can be managed by passing existing stocks of money *faster* between buyers and sellers—that is, by raising the velocity of money circulation. But, experience has shown that no inflation goes fast or far without a growth in the money stock that outruns the percentage needed to match the growth of output in an expanding economy.

The sharpest inflations have been the paper-money inflations, where governments have issued paper money to pay their bills and have removed money by taxes and bond issues so slowly that the public's total stock has grown. The assignats of the French Revolution, the continentals of the American Revolution and the greenbacks of the American Civil War are examples of this kind of paper-money inflation. Peacetime inflations of great extent, such as the chronic inflation of Brazil, also often rest on paper-money expansion.

In countries where checks are widely used, inflation can equally well be financed by a growth of bank deposits. Indeed, this is what provided the bulk of the monetary growth for the inflations during and after the two World Wars in the English-speaking countries. For us, bank-credit inflation is just as important as paper-money inflation. Furthermore, bank-credit inflation may just as well represent a credit expansion to support loans to business as to support loans to government.

There have also been money-metal inflations. The celebrated price rise of the 1849 gold rush, when laundry cost so much in San

Francisco that shirts were sent to be washed in Honolulu, was an extreme case of a gold money stock outgrowing production of goods. For centuries after Spain started to draw gold and silver from the New World, the influx of "Spanish treasure" into Europe provided the growing stock of money to support a long-term price-raising process. Paper currencies and bank-credit systems firmly linked to gold have also been able to expand and finance inflation, as we experienced in the United States in the "creeping" inflation of the 15 years before World War I.

Continuing trend

Some students of inflation regard it as a continuing trend in the world of the last few centuries and of today. Historically, they can show that the value of the monetary metals has dropped relative to other commodities ever since the Spanish treasure began to reach Europe in the early 16th century. Besides, most currency units have lost value relative to the monetary metals. Our boosting of the official gold price in 1933-34 from $20.67 to 35 dollars per ounce was a mild example of this. More extreme cases are memorialized by the very names of some currency units. "Lira," for example, is simply the Italian for "pound," indicating an evolution from a unit once worth as much as the British pound but today worth only a small fraction of a cent. While history shows important "deflations" within the last 150 years—most recently in 1929-1933—these seem to be unusual events in the long sweep of history.

The view that inflation is normal has a foundation also in present-day economic arrangements. In the past, price rises linked with wars, and the milder price rises of peacetime prosperities, have been offset more or less by deflations—that is, price-level-decreasing processes—in depressions. It would seem from the record that price deflations in an industrial economy can be ground out only by long depressions with mass unemployment. Today's governments are pledged never again to permit such depressions, and while we have had no real test, most students of the question agree that they can and probably will carry out this pledge.

Postwar experience suggests that the mechanisms that boost prices in prosperity are still at work with increased strength. If their work is no longer to be averaged out by deflations, our only shield against secular inflation is the growth of productivity which permits product prices to fall relative to wage rates. But, it looks as if wage rates may have a powerful enough upward drive to override this defense.

The classical image of inflation has been one of "too much money chasing too few goods." It is plain that if buyers of goods are in a position to increase the flow of money they spend, their demand can pull price levels up. But some observers feel there is an independent type of inflationary process by which prices are pushed up from the cost side by raises in wage rates and raw material prices and by markups at various stages of fabrication, transport and merchandising.

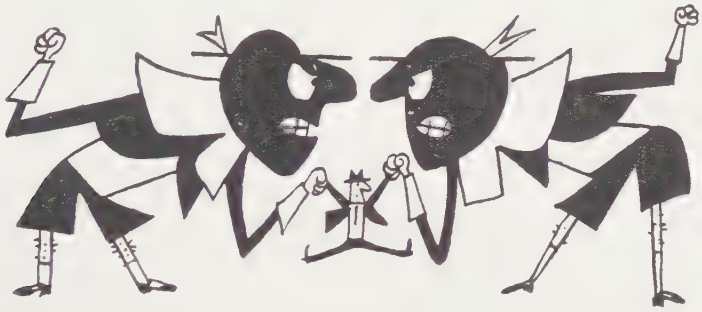
The effect of a cost push was certainly visible during the period when inflation was repressed by price control. If the authorities granted a wage increase, boosted the price of a raw material to get more supply, or allowed some type of business a wider gross profit margin to "correct inequities," they generally had to allow the result to be passed on to retail prices. The successive "wage rounds" of the early postwar years, and the boosts of wages and raw material prices during the early stages of the Korean war seemed to show the same forces at work in a situation where inflation was open rather than repressed. This is not the only possible interpretation of the record; skeptics about the cost push point to the wage rises in such unorganized activities as domestic service as evidence that something other than a deliberate push was at work to raise the level of the wage-price structure.

Obviously, there is no use trying to settle this question in an introductory article on the types of inflation and the names economists put upon them. We leave to later articles in this issue to argue whether we have been worked upon in recent years by the first, by the second or by an interplay of both.■

A Necessary Intermission

THE MOST stultifying effect of television viewing apparently is *not* boredom. It has been reported that the greatest risk of long hours of sitting and watching is circulatory disorders, particularly in the legs, where dangerous blood clots form after sitting for a long time in awkward positions. This danger is illustrated in the case of 21 deaths "reported to have resulted from this type of circulatory disorder in England during World War II when air raid victims had to spend long periods of time sitting on chairs or benches in shelters. The blood clots which formed in the leg veins. . .were carried up to the lungs and caused sudden death." (*Science News Letter*) Those trips to the kitchen during commercials are bad for the diet, but a necessary intermission in more ways than one.

Big Business and Big Labor have shunted much of the burden of inflation to unorganized economic groups



INFLATION'S VICTIMS

by Robert Lekachman

AMERICA has witnessed two varieties of inflation in recent years. The first, lasting roughly from 1939 to 1948, proceeded from a position of considerable unemployment of men and resources. The second, which started in the middle of 1955 and still continues, began in a time of full employment.

The distinction between partial and full employment is important. The 1939-1948 inflation flared up from the insatiable desires of consumers for practically everything that wartime conditions had withheld. Businessmen raised prices freely as they were pushed by cost increases and pulled by demand rises. Individuals and groups bid frantically for scarce resources.

Inevitably the weaker bidders lost. They included local and state governments which postponed spending on schools, mental institutions, hospitals and roads. Similarly, groups whose incomes were relatively fixed—the recipients of interest, rent and pensions—found that they could buy less than formerly.

However, entrepreneurs—business and agricultural—discovered growing markets for their products. Low interest rates, expensive labor and high demand stimulated capital investment to levels which might not have been reached without inflationary pressure.

It would be foolish to pretend that this inflation was costless. But its hardships were mitigated by the overwhelming fact that real income increased by 40 per cent during the decade. Many of the losses, therefore, were in relative position rather than in abso-

lute command over goods and services. Coal miners undoubtedly improved their position more than government employees; but even civil servants were able to buy more at the end than at the beginning of the inflationary rise.

Labor income up

The new "full employment" inflation, beginning in 1955, has attacked its victims in somewhat different ways. Who has been hurt by this creeping inflation and in what measure?

Labor income went up markedly. In 1948 labor got 70.7 per cent of national income, but its share went up to 75.5 per cent in 1955 and 75.8 per cent in 1956. Business, professional and rental income fell off, while dividends and interest went up slightly.

These figures ignore a number of contradictions as well as the multiple identity of many Americans today. It is true, in general, that labor incomes go to the moderately poor and property incomes to the moderately well-off. But a drop in rental income hurts a poorer person as well, like the widow who helps support herself from the proceeds of a two-family house. On the other hand, the salary of General Motors President Harlow Curtice is also a part of labor income. Many people have several different types of income—savings bank interest, dividends from small stock and bond holdings, and wages or salaries.

Has inflation made the rich richer and the poor poorer? The evidence obviously does not support an affirmative answer. In 1950, 79 per cent of all American families earned less than 5,000 dollars a year. In 1954, only 64.6 per cent fell into this category as measured by 1950 dollars; and a year later, only 62.1 per cent. Thus, the poorer families improved their positions not only absolutely but also relatively.

We must tread cautiously when we seek to identify the injured in this generally optimistic picture. The key to such an examination is the concept of mobility. Those individuals and groups whose skills or properties are capable of easy adaptation to changing demands do well in an inflation. Labor income in general rose not only because of the high demand for goods but also because many assembly line workers could readily shift from one industry to another and from one community to another. But such groups as textile workers, unwilling to change industries and locations, fared poorly.

Rental income was kept low not only because controls persisted long after their elimination in other areas of the economy, but

Robert Lekachman is Assistant Professor of Economics at Barnard College, New York City.

also because the fixity of land and buildings prevented landlords from shifting resources. In a sense, declining standards of maintenance represent a marked attempt by landlords to shift their resources a bit more rapidly.

Pinch of inflation

If the costs of inflation fall most heavily upon the immobile, then the two principal victims are individuals like the aged, widowed and incapacitated, and our educational and cultural institutions. The first group lives typically upon public or private pensions and the returns from past savings. The pinch of inflation makes many narrow existences unbearable and deprives many frugal individuals of the rewards of past sacrifices. This group should be of more than sentimental interest because our population is aging, and every year the number of those over 65 grows not only in numbers but in percentage of the total population.

Our universities, museums, symphony orchestras and art galleries also encounter adversity during inflation. Almost invariably they charge prices which do not cover their expenses. In a democratic society, the motives behind this pricing policy are irreproachable. Unless education and the arts are to become the exclusive preserve of the rich, the prices they demand must be low.

As a university teacher, I may be excused for saying feelingly that so far college faculties have done much of the subsidizing of their institutions by accepting wages lower than they might earn if they changed to other occupations. The quality of college instruction has begun to drop and probably will drop further as intelligent young people choose more lucrative professions and as educational institutions replace them with such ersatz devices as closed-circuit television.

During inflation we cannot rely upon the competitive market to produce results which are entirely satisfactory. Yet it is important to add that any *moderate* inflation rewards the enterprising and penalizes largely those whose responses are slow or ineffective. More rapid inflation saps the incentives of all groups and diverts energies from productive endeavor to the black market arts of barter and speculation.

There is a final question to examine: What shifts of political power and influence has inflation produced? There is some support for the proposition that political influence has shifted with the fortunes of the economic groups we have identified. It cannot be said that the Administration's farm policy has been unwaveringly devoted to the restoration of the free market. Yet, it has moved in

that general direction. We might guess that this ability to persevere in an unpopular policy suggests the declining number of farmers and their waning influence.

To the pride of its supporters and the scorn of its opponents, this Administration is a business administration. Yet its policies towards trade unions have been notably gentle. James P. Mitchell, its Secretary of Labor, has publicly opposed the state right-to-work laws which make the maintenance of any form of the union shop virtually impossible. His suggestions for additional legislation contemplate softening rather than hardening the Taft-Hartley Act. The Administration has done no more than accept the logic of organized labor's greater political and economic power.

Economic potency

In a variety of ways, the Administration has recognized the new economic potency of the large business organization. Its tax policies have given relief to dividend earners and aid to corporations through more rapid depreciation allowances. Although eager to balance its budget, this Administration has never sought to revise tax provisions which favor certain business groups, as the depletion allowances favor the owners of oil properties.

The fate of the school construction bill and the failure to support universities perhaps point to another political reality in our time of inflation. The groups which support such programs are economically weak and comparatively small in number. The very inflation which has intensified their problem has lessened their capacity to gain the political help they need.

The danger is that those groups who have gained by inflation have acquired also the political influence further to improve their position, while those who have lost have lost as well the strength to win political succor. This rather gloomy observation is the reverse of the hope expressed by the concept of countervailing power—namely, that groups will check each other and, as a last resort, the government will act as a counterweight.

The groups with a stake in inflation—labor unions and many businessmen—are now stronger than they were. The groups hurt by inflation are weaker. So far this Administration has held a fairly strong line against inflation. But the fact that it has stopped short of the more drastic budgetary steps—higher taxes and sharply curtailed expenditures—suggests the nature of its political necessities and the possibility that inflation will continue because it is politically disastrous to stop it. ■

The official philosophies of important groups resist any thoroughgoing action designed to check price rises

Secular Inflation and Shibboleths

by Martin Bronfenbrenner

SOME ECONOMISTS believe that our present inflation helps everybody. But a great deal of damage is done beneath the bland surface of things, and the eventual result will be some economic distress.

The immediate advantages, however, have attracted both liberals and conservatives to the inflationary thesis. Truly effective action against inflation is bound to cause them both material and ideological hurt. Liberals will be shocked if they are told that they must give up the unconditional *guarantee* of full employment; conservatives will be enraged at our suggestion that profit margins must be reduced or corporate taxes put on an "undistributed profits" basis.

But, near-sacred beliefs must be manhandled if we are to control inflation. Or is the cure worse than the disease?

A number of well-known economists have come to feel that a slow inflation can make our economy grow faster than stable prices; that it can give us full employment a greater proportion of the time than can stable prices; and that it will not injure anyone significantly.

This is the secular inflation thesis, which has its American center at Harvard University where its advocates include Professors Alvin Hansen, Sumner Slichter and Seymour Harris. It is apparently gaining in influence not only on college campuses but also the government, business and labor circles as the price level rises and prosperity continues.

Secular inflation is a condition in which prices are allowed to rise during periods of prosperity more than they are permitted to fall during periods of

recession so that the long-term trend is definitely upwards on balance. In other words, a price increase can be anticipated over every decade or generation. This is not anything new. Currency inflation has been normal since ancient times. In the century which ended with World War I, a new order of things seemed to have begun, where inflations and deflations roughly balanced each other out over the long term under the aegis of the gold standard. This interpretation of a "new order" now appears to have been premature.

Buoyant demand

The claim for secular inflation is that almost everybody is helped by a slowly rising level more than he is hurt by it.

How is everyone helped? Nobody wants to hoard money if it is depreciating. Therefore, everyone spends more readily, demand is buoyant, businessmen are optimistic, there are jobs for everyone and we use our resources to the limit. It also becomes possible to give all our major economic pressure groups most of what they want in higher money wages and money profits if we let prices rise, so that production is not held back by periodic strikes and slowdowns, but increases rapidly.

How can you protect those who would expect losses from inflation? It is a commonplace of "economic principles" textbooks that inflation injures creditors and fixed income groups—salaried employees, life insurance policy and bond mortgage holders and pension recipients. The thought of the secular inflation economists is that these people can be largely protected against secular inflation by two processes.

The first of these processes is "escalation," the inclusion of cost-of-living bonuses in what would otherwise be fixed income contracts. Such bonus provisions have become quite common in American collective wage agreements since 1950, and the "parity" provisions for farmers are illustrations of the same kind of thing. Why should not bonds, mortgages, insurance policies or pensions have similar clauses?

The second process is a shift away from the holding of long-run credit instruments to the holding of equities or real estate. According to a leading exponent of the secular inflation school, why worry about the widows and orphans? They own stocks, not bonds. Or if they don't, they will soon learn to.

I have tried to present the secular inflation case in an objective light, because I suspect the secu-

Martin Bronfenbrenner is Professor of Economics, Michigan State University.

lar inflationists will continue to have things much their own way for quite some time in American politics, and the rest of us will have to try to live with the results. On the other hand, I feel much less optimistic about what those results will be.

Problem of anticipations

To begin with, I am highly dubious that a secular inflation can be kept slow while still accomplishing all that is hoped for it. The problem is *anticipations.*

Suppose that the price level has been rising on the average by five per cent a year and that trade unions anticipate that this rise will continue. It follows that where they would otherwise ask 10 cents an hour for workers earning two dollars an hour, they will probably ask 20 cents—or slightly more—the extra 10 cents to cover the depreciation of the two dollars they are now getting.

If employers anticipate that they can pass on the 20 cents an hour—or that part not covered by productivity—they will usually grant the increase with a minimum of shadowboxing. That would require that the annual expansion of money incomes be twice as great as would be required for them to pass on 10 cents an hour. If money incomes expand twice as fast as they otherwise would, the probability is that price levels also would expand twice as fast—10 per cent instead of five per cent.

And so the inflation would tend to accelerate itself in the direction of the German, Chinese or Hungarian inflationary explosions. If on the other hand it is clear that the monetary authorities are going to hold the line at the five per cent rate of increase in prices, we will have the same strikes and slowdowns which secular inflationists attribute to the consequences of holding price levels stable.

This is the dilemma of secular inflation. Either it accelerates and goes out of control, or the checking of its acceleration causes the same difficulties one would get under a regime of price stability.

Besides, is secular inflation really as painless as its adherents claim? Escalation systems are always imperfect and seldom adequately cover contracts made in the past. Even if future creditors are protected by escalation, past and present ones will not be and will suffer accordingly.

Another trouble with escalation is that it requires monetary expansion to carry it out.

This is quite obvious in the case of the government debt. It currently costs about seven billion dollars to pay the annual interest on a national debt of approximately 250 billion dollars. If prices rose five per cent a year and the debt

were escalated in terms of both principal and interest, it would cost 19.85 billion dollars—12.5 billions to compensate for the decline in the value of the principal and 7.35 billions for interest in real terms. Whether the government borrows the additional money directly from the banks, from the savings of individuals or through taxes, if spending is not reduced for other things, the result would be monetary expansion and accelerated inflation.

Secular inflation also causes the use of nonproductive inflation hedges. If, instead of hoarding his money in a mattress, a man buys rare stamps, gold, existing securities or real estate, where is activity being stimulated? This is really a flight of money into and out of these inflation hedges—"hoarding on the wing"—by-passing the productive sector entirely.

Activity may be penalized if "hoarding on the wing" keeps the hoarder further ahead of inflation than productive activity does, or if durable raw materials become more valuable as inflation hedges than in their usual purposes. Both these phenomena often happen when inflation gets out of control, so that hyperinflation and unemployment often progress hand in hand.

Finally, how compatible is secular inflation with a free economy as we generally think of it? Some of the secular inflationists think in terms of direct price controls and allocations of raw materials to check the difficulties I have mentioned, and, incidentally, to shift rather drastically the distribution of income in a direction favorable to "labor" and hostile to "capital." Americans for Democratic Action, led by economic spokesmen like Robert Nathan and Leon Keyserling, former chairman of President Truman's Council of Economic Advisers, seem to advocate such a policy. It is hard to characterize the kind of economic system they have in mind by any single word or phrase more meaningful than "mixed economy." It would probably be more like the present British economy of 1945-51 than the American or Russian economies.

Painless prosperity?

But will secular inflation bring us painless prosperity? No, it will not be painless; I'm afraid it may not always be prosperous; in blacker moments I even see expropriation and forced labor as possible consequences. There should be alternative suggestions. What are they?

Many of us know about the thesis of *The Economist* of London on the "uneasy triangle"—stable prices, full employment and strong economic pressure by organized labor, industry and agri-

culture. *The Economist* said that we could have any two of these, but not all three. I agree. The issue of economic politics is: Which of the three shall we give up?

Part of my answer will shock the liberals. I do not suggest that we give up the idea of achieving full employment, or full employment as a goal of policy. I do suggest we give up the unconditional *guarantee* of full employment. This is not an easy choice, involving as it does the threat of unemployment as a means of economic discipline. Moreover, there is no guarantee that unemployment and distress brought on by unreasonable wage demands in, for example, coal or steel or construction may not spread to the food processing and textile industries which have been completely reasonable. The choice is one which a practical politician can hardly dare to make openly. The true economist's job, however, is to help change the climate of opinion until it is safe for politicians to agree and still hope for re-election.

Job to be done

Call it by the "clean" word "education" or the "dirty" word "propaganda;" this is a job that must be done. It may take a long time, but again it may not. The memory of the depression decade with its accompanying horrors is fading into the background, and the unpleasant consequences of inflation may soon become more apparent than they now are.

Now, let me say something that is sure to distress the conservatives. I suggest that much of labor's demand for wage increases "out of profits" is eminently reasonable. Many profit margins are higher than they would be in purely competitive markets today, and a round of wage increases without price increases will take much of the vigor out of the case for secular inflation.

Traditional profit margins and markups were for the most part set up in periods when the next depression was always around the corner, and when governments did little or nothing to alleviate the next depression when it came. Those days are probably gone forever, and with them the need to hold profits high enough in good times to accumulate reserves for depressed periods. But many "administered" and "quasi-administered" prices and profit margins have been held as high as ever.

Not being fools, workers see what is going on rather more clearly than the general public, including many college economists. They see not only dividends and corporate taxes being paid, but inflated executive salaries, executive overstaffing, padded costs and expense accounts, and reserve accumulations. Is it at all surprising

that their demands become less and less "reasonable?"

I also think small business is eminently justified in its claim that anti-inflation tight money discriminates against it. When money is tight, the little man cannot get funds to grow and expand, while his larger and established competitor can keep on growing and expanding out of retained earnings withheld from distribution as dividends.

What should be done about this? Put the corporate income tax pretty much on an "undistributed profits" basis and make undistributed profits taxation a keystone of anti-inflation policy. Lower the rates generally, but make big business distribute its profits and scramble for credit with the rest of the economy when money is tight.

What I would do to the "uneasy triangle" then is to make two of its sides uneasy—guaranteed full employment and strong economic pressure groups—to the advantage of the third side, stable prices. This kind of geometry does not, however, appear to be a favorite subject of the average man. ■

Postscript on the Gold Standard

IN ANY ARTICLE on secular inflation one can anticipate the following questions on the gold standard: (1) Would we have to worry about secular inflation under the pre-1933 full gold standard? (2) Can we possibly avoid secular inflation unless we return to the pre-1933 full gold standard? (3) Why not advocate return to the pre-1933 full gold standard as the way out?

To answer these questions even superficially would take a long article, but let me give blunt answers devoid of their supporting argument and evidence. The answer to the first question is almost certainly in the negative. Return to the full gold standard would check the danger of secular inflation most effectively. It might, in fact, replace it with an equally dangerous secular deflation.

The answer to the second question is almost certainly in the affirmative. It is possible to limit the quantity of money under any sort of standard or management system so as to avoid secular inflation. Such a limitation, however, is not always politically feasible. This is our trouble now.

The answer to the third question is in two parts. First, most economists think some types of currency management are potentially superior to the full gold standard in that they can avoid both secular inflation and the secular deflation which may result from a return to gold. Second, the pre-1933 gold standard is associated in the public mind with deflations, depressions and unemployment. It would be political suicide to include its restoration in any anti-inflationary program.—M. B.

Do administered prices mean administered inflation?

The Power of Price-makers

by Jules Backman

"THE CURRENT INFLATION is not a monetary but an administrative inflation." Gardiner C. Means offered this thesis, putting the blame on administered prices, at hearings of the Senate Antitrust and Monopoly Subcommittee.

But, Professor Richard Ruggles of Yale University told the subcommittee flatly, "It is not possible to maintain, in view of the statistical evidence, that administered prices have been primarily responsible for the inflationary spiral."

If Dr. Means was unequivocal with his blame, he was, however, temperate in his judgment of the dangers. He insisted that he did "not believe that the area of discretion accompanying administered prices is likely to lead to runaway inflation."

Administered prices are fixed by the seller in distinction to market prices determined by supply and demand, as, for example, in stock and commodity exchanges. The suggestion that inflation is the result of rises in so-called administered prices is a brand new theory. In fact, in the early postwar inflation years, the failure to raise these so-called administered prices as much as may have been warranted by the shortages then prevailing was an important factor which held down the magnitude of the postwar price inflation.

Major price inflations in the past have been associated either with large government deficits, an excessive issuance of money and credit, or with some combination of both. The wartime and early postwar price inflation in this country clearly was attributable to these forces.

During the past two years, how-

ever, no new monetary or fiscal inflation has emerged in our economy. Prices have been rising despite the fact that the federal budget has been in the black. Some persons insist that the high level of government spending, regardless of whether the budget is balanced or not, is a primary factor in the rise. Large expenditures do play an inflationary role, but this is counterbalanced by the deflationary effect of an over-balanced budget that is taking more money out of the economy than the government is spending.

Turnover of deposits

Nor do we find an inflationary expansion in money and credit supply. In the first half of 1957, the total volume of demand deposits and currency was less than one per cent greater than a year earlier. However, the turnover of deposits has increased. To some persons this has seemed a significant factor contributing to inflationary pressures. But the greater use of available money supply is the *result* of greater economic activity rather than the *cause* of it.

The failure of the traditional inflationary forces to develop has led to a feverish search for the reasons for the price rise during the past two years. Administered prices have been chosen as the whipping boy. It is useful to start with an examination of the anatomy of prices. What prices have risen? What identifiable factors, if any, help to explain such price behavior?

An analysis of 92 groups of wholesale prices reported by the Bureau of Labor Statistics will show what has happened to both administered and nonadministered prices. The analysis covers the first two years of the rise, from June 1955 to June 1957. The wholesale price index is predominantly administered, with 78 administered groups out of the total of 92. These administered prices account for about 90 per cent of the weight in the index.

Price behavior has varied greatly, as it usually does over any length of time. Ten major groups of administered prices have risen more than 15 per cent. These are mainly in machinery and transportation products; metals and metal products; and fuel, power and lighting materials. But prices declined for 20 groups, remained unchanged for three groups and rose less than one per cent for six others.

Thus, many administered prices actually declined or failed to change although the total index rose 6.6 per cent. Among the ad-

Jules Backman is Professor of Economics, School of Commerce, Accounts and Finance, New York University.

ministered wholesale prices which did *not* rise were those for television sets, radios and phonographs, cereal and bakery products, household electrical appliances, lumber, textiles, chemicals, canned and frozen fruits and vegetables, copper, lead and zinc, plywood and mixed fertilizers. Clearly, the fact that a price was administered does not mean that it has risen in the past two years.

Behavior of prices

Similarly, not all market prices have declined. Prices of grains and feeds have fallen because of the large surpluses available. However, other market prices have risen. Included in this latter group are hides and skins, vegetable oil products, livestock and poultry, fresh and dried fruits and vegetables, and animal fats and oils.

A number of interesting contrasts in price behavior may be cited for the two-year period:

- Coal, which has high labor costs and an administered price, scored one of the largest increases in price. On the other hand, administered lumber prices declined.
- Prices of hides and skins, which are market-determined, rose at about the same proportion as price-administered leather prices.
- Prices of man-made fiber textile products declined, while prices of wool products advanced, and prices of cotton products were about unchanged. These products are all price-administered.
- Electrical machinery and equipment prices increased 17.2 per cent, while prices of television and radio receivers and phonographs recorded no change, and prices of household appliances fell 1.3 per cent. In many instances these products are produced by the same companies.
- Price-administered canned and frozen fruits and vegetables declined, while there were small increases in market-price-determined fresh fruits and vegetables.

These illustrations show that no generalization concerning the behavior of administered prices can be made. Many administered prices did increase—and in some cases by significant proportions. Other prices declined.

Impact of special forces

The diverse behavior of these prices was not attributable to the method of price determination. Rather, it reflected the impact of the special forces influencing each group of products. The major areas of price rise have been in those industries which have been most affected by the boom or those products which have the highest proportion of labor costs to total cost.

When labor cost increases are greater than productivity gains, the resulting higher unit labor

costs create pressure for higher prices. For example, average hourly earnings in manufacturing industries have risen about 225 per cent since 1939, while productivity has increased only about 50 per cent. The gap would be even wider if fringe benefits were included.

Output per man-hour in all manufacturing industries rose less than three per cent in 1956. In contrast, average hourly earnings rose 5.3 per cent—not including fringe benefits. The U. S. Bureau of Labor Statistics estimates that unit labor costs rose 4.5 per cent in the economy in 1956. This reflects the extent to which administered *wages* and fringe benefits rose more than productivity.

Companies are not free to raise their prices without regard to the basic forces of supply and demand. Until early 1956, copper prices advanced sharply under the stimulus of expanding demand. But since then, supply has caught up with and exceeded demand. The price of copper then declined precipitously. The copper price administrators were not able to hold up the price in the face of unfavorable market forces even though they are large and powerful companies.

The various comparisons cited show that there is no simple or certain relationship between price administration and the direction or magnitude of price changes. Other factors provide more significant explanations for the varying behavior of prices. Thus, there was a depressed condition of demand in tires and tubes, lumber and nonferrous metals. The Suez affair stimulated demand for petroleum products. The high relative importance of labor costs pushed up prices in coal, iron and steel, while low labor costs contributed to the stability of cigarette and chemical prices.

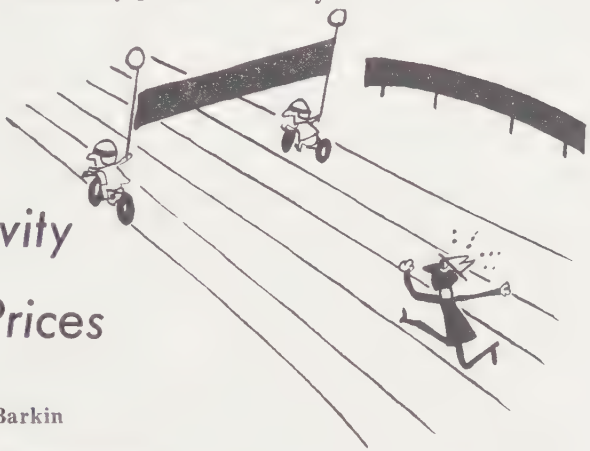
It is difficult to understand how price administration *per se* can be responsible for the general price rise. The primary pressures and responsibilities for price behavior, therefore, are found in other factors. ■

Scholarship Aid Available

In 1950, 27 million dollars was available in scholarship aid. During 1955-56, 237,000 scholarships, valued at 65.7 million dollars, were available at U.S. colleges and universities. The *total* value of scholarships, loans and campus employment amounted to 144 million dollars. Two publications, *Financial Aid for College Students: Undergraduate* ($1.00) and *Financial Aid for College Students: Graduate* (50 cents) may be obtained from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

A labor economist says that prices have outrun labor costs and thus have caused the inflationary pressure of today

Labor, Productivity and Prices



by Solomon Barkin

THE SUDDEN JUMP in consumer and wholesale prices, following as it did a four-year period of over-all price stability, has become a matter of general concern.

While attention has been focused on ways and means to control the price rise, some people have wondered out loud whether the cure might not be worse than the relatively mild inflationary fever we have experienced to date. Of course, we want price stability. In the postwar period, however, we have tied this goal to other economic and social objectives which we would be loath to sacrifice. The Employment Act of 1946, for example, explicitly noted the federal government's responsibility to assure our growing economy with maximum employment of labor and resources.

It is in the light of this commitment to maximum employment that many people question the wisdom of the higher financial charges invoked by the Federal Reserve Board. These critics question the effectiveness of the Fed's policy as a curb on inflation, and worry about its repressive effects on certain segments of the economy. If these measures were to start a recession, would this not be too high a price to pay for price stability? Can price stability not be obtained by other, more effective, means?

In this connection, many people have lately been asking themselves whether wages or corporate pricing policies (or both) are responsible for current price rises. While these are not the only phases of the inflation problem

which must be considered—farm prices, service costs and taxes on commodities are also reflected in consumer and wholesale prices—they are nonetheless critical. In this article we shall, therefore, focus our attention upon the impact of wages and management pricing policies on the general price level.

Is it true, as many business spokesmen and economists believe, that the behavior of wages has created an inescapable pressure for price increases? In the postwar years, the wages and fringe benefits of workers have improved annually. This is particularly true of workers in the unionized mass production industries who have been the pacesetters and who have enjoyed continuously rising benefits during the last 10 years.

No historical precedent

There is no historical precedent for such a continuous progress in labor income. Prior to 1929, wage increases generally occurred during boom periods and were almost invariably followed by reductions during periods of recession. Today, this pattern has changed. Nowadays, wage reductions are rare and few employers even consider such techniques to meet general economic or local entrepreneurial problems.

Today, annual wage increases are formally provided for in the contracts with the leading corporations of the mass-production industries. Even more important is the acceptance by both the union and the employer of new principles to govern their relationships. Unions, for example, have accepted management's right to promote productivity in exchange for these annual wage increases. Thus, the contract between General Motors and the United Automobile Workers explicitly states that "the annual improvement factor provided herein recognizes that a continuing improvement in the standard of living of employees depends upon technological progress, better tools, methods, processes and equipment, and a cooperative attitude on the part of all parties in such progress."

Management's responsibilities, although they have been less formally developed, are equally plain. Clearly, if wage increases reflect the rise in productivity, there should be no rise in labor costs. If, therefore, management operates efficiently, it should be possible to absorb wage increases without raising prices. It is precisely in the unionized mass-production industries, whose rate of productivity increases exceeds that of the economy as a whole, that we should expect the pacesetting.

Solomon Barkin is Director of Research for the Textile Workers Union of America.

Indeed, the principle of higher wages *and* stable prices has been recognized by management spokesmen. Thus, H. W. Anderson, vice president in charge of industrial relations for GM, has publicly stated that the wage increase provided by the annual improvement factor was, in fact, "repaid in the form of increased production so that, in effect, you have sometimes a decrease in actual cost for a particular unit." Charles E. Wilson, former president of GM and until recently Secretary of Defense, put the matter even more clearly when he declared that "it is not primarily wages that push up prices. It is primarily prices that pull up wages."

Look at the record

Has management lived up to these new obligations? Have productivity increases in the "pacesetting" industries exceeded the national trend? Has management been able to finance an annual wage rise without having to pass such increases on to the consumer?

A look at the record for the last few years will show that between 1947 and 1956, output per man-hour in the nonfarm private sector of the economy has increased by 27.8 per cent, or at an annual rate of 2.8 per cent. Progress was even more striking in the manufacturing industries where productivity increased by 40 per cent during the same period. Particularly striking gains have been chalked up in the durable goods sector of the economy.

In view of these impressive increases in productivity, how can we explain the current inflationary tendencies? Have wage increases been the cause of price rises? A recent study by the U.S. Bureau of Labor Statistics, which covers the period from 1947 to 1956, suggests an answer to this question when it concludes that "the index for unit labor costs was lower than the price index for every year prior to 1956, although the difference was very slight and probably insignificant in 1953 and 1954." In its June 1, 1957 issue, *Business Week* magazine interprets this as follows: "Unit labor costs seem to have followed prices uphill through most of the postwar years and particularly in those years when the inflationary peak was most intense."

The crucial question here is whether increases in productivity have been sufficient to offset the rise in hourly earnings. Between 1947 and 1956, hourly money earnings in the manufacturing industries rose by some 60 per cent, but real hourly earnings rose only 32 per cent. This compares to a rise of 40 per cent in output per man-hour during the same period. Thus, while unit labor costs in

terms of current earnings rose by 14 per cent, workers' real income did not keep abreast of productivity advances.

Manufacturers renege

The record will show that the prices for manufactured goods have increased far beyond the 14 per cent rise in unit labor costs. According to the 1954 Census of Manufacturers, wages and salaries constituted 57 per cent of value added by manufacture and about 25 per cent of the cost of manufacturing. Thus, one might have expected that the 14 per cent increase in unit labor costs would be reflected in a much lower rise in wholesale prices. The wholesale prices of unmanufactured goods rose by 22 per cent. Clearly, the prices of manufactured goods have risen beyond the increase in labor costs. Manufacturers, in other words, have not held to their part of the bargain.

This is particularly true of the durable goods industries where the widening of profit margins is clearly reflected in the relevant statistics. Thus, from 1947 to 1956, hourly money earnings rose by 63 per cent, but real hourly earnings increased by only 34 per cent; while output per man-hour rose by 42 per cent. Real hourly earnings, in other words, fell some 23 per cent below the rise in productivity. At the same time, wholesale prices for consumer durable and producer finished goods increased by 39 per cent—more than twice as much as the 14 per cent increase in unit labor costs.

Of course, the story is considerably different in many of the nondurable goods industries where competition is keener and the manufacturers cannot administer their prices at will. Thus, in the nondurable sector of the economy in the period from 1947 to 1956, money hourly earnings rose by 55 per cent, real hourly earnings by 27 per cent, and output per man-hour by 36 per cent. Despite an increase of nine per cent in wholesale prices, unit labor costs in the nondurable sector of the economy rose by only 12 per cent during this period. Even so, employers in this sector of the economy were much more conservative in their pricing policies.

Strikingly greater increases

Indeed, the ability of certain large-scale, semimonopolistic industries to administer their prices has produced strikingly greater increases in the prices of their end products than in those of other industries. Those commodity groups reporting the largest price increases—metal and metal products which rose 63 per cent; rubber and rubber products, up 47 per cent; and machinery products, up 49 per cent—all represent highly con-

centrated industries in which companies can administer prices.

Pyramiding costs

Such inflationary price policies are sometimes defended on the ground that companies need high earnings in order to finance their own expansion. I do not think this argument will hold water. Under conditions of real competition, business would be unable to charge prices which today enable them to reinvest such a large portion of their earnings in plant expansion. Besides, I am not at all sure that the current reliance upon internal financing is economically sound. The money market should be free to invest in those industries and companies which it believes to be most productive. The present procedure encourages corporations to charge the consumer higher prices in order to enrich themselves and pyramid higher costs onto the economy.

To conclude, I believe that the statistics clearly prove that (1) prices, particularly those of the manufacturing industries, have risen well beyond the rise in the unit cost of labor and (2) real wages in the primary, unionized industries have increased less than the rise in productivity. Even in industries where productivity has not advanced as rapidly as would be desirable, the constant pressure of rising over-all wages is prodding employers into a new awareness of the need for modernizing antiquated equipment and outdated managerial procedures and policies.

Unions do not operate our industrial system. Although they can affect, they cannot really *determine* the employers' behavior in the broad management area. Their primary responsibility is to assure their members of the benefits of rising productivity and rising profits and to protect their income against cost-of-living increases. But to the extent that managements act without restraint and inaugurate price policies which lead to exhorbitant prices and profits, it is clearly the duty of unions to claim a share for the workers.

Any program for assuring stable prices must, above all, seek to bring the price policies of our semimonopolistic corporations into line with the basic objectives of American unions. Managements must show their good faith by observing the commitments made in the long-term collective bargaining contracts signed in the major American industries. And if American industry does not voluntarily follow this course, the Congress of the United States has a responsibility to examine the propriety of industrial price and production policies in the light of the national interest. ■

Is the buying public being habituated to persistent inflation?

The Consumer Faces Rising Prices

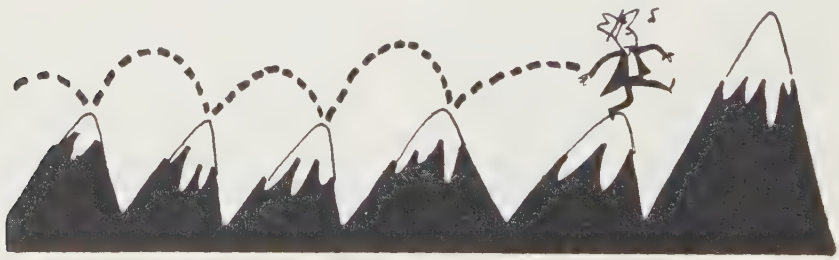
by Eva Mueller

In 1956, consumers purchased two-thirds of the national output of goods and services. Governmental, business and foreign buyers competed for the remaining third.

Will the consumer now make even more explicit use of his power? Will he accelerate the inflationary creep into a more spectacular kind of inflation? In the past, the consumer was a stabilizing force in the economy because he believed in the long-run stability of the price level. But this belief could continue only as long as price advances were intermittent, followed by stable periods and even occasional declines in some items.

The memory of the great depression, when price drops were associated with a general slump, is still vivid to many people. Fairly prompt income improvements in the recent past, moreover, have more than made good the loss in purchasing power caused by inflation. The consumer has thus come to expect favorable cost-of-living adjustments. But there are indications that consumer thinking has begun to undergo a change. How extensive has this change been?

Traditional economics posits an adjustment mechanism that comes into play as inflation becomes evident. During an inflationary period, a given consumer income will find its "reaching power" reduced, thus diminishing the consumer's real claim to goods and services.



In an extreme case, the consumer may even engage in a buyer's strike, minimizing his spending in the hope that prices will be more attractive in the future.

But the reverse may happen. The consumer can also speed up his spending in anticipation of price increases. He may finance this higher spending rate by dipping into past savings or by using consumer credit. Such action is entirely consistent with the concept of the rational consumer who relentlessly calculates and pursues his pecuniary interest. Thus, economists, fearing that consumers are more likely to add to inflationary pressures than to reduce them, are apt to describe inflation as a cumulative process which feeds upon itself.

Economic history shows that in times of inflation both kinds of consumer reaction, intensified or reduced buying, have at times occurred. Periods of extremely large and pervasive price advances have always led to high consumer spending. People learned that money diminished in value from day to day and that they must exchange all money for goods without delay. Some of the best-known instances of such extreme inflationary sentiment are the German inflation following World War I and the Greek inflation following World War II. In our own country we witnessed a wave of panic buying—on a much more moderate scale—after the outbreak of the Korean war, when prices rose very rapidly for a few months.

An example of the opposite kind of reaction—buyers' resistance against high prices—also may be found in recent economic history. In 1951, following the period of advance buying, discretionary expenditures by consumers fell off despite some increase in personal incomes. Most typical of American consumers, however, is an intermediate sort of reaction: in periods of small price advances, American consumers have often spent just about the same proportion of their incomes as in periods of price stability.

Consumer behavior can be more precisely understood by a step-by-step evaluation of (1) inflationary stimulus, (2) consumer awareness of price trends, (3) consumer attitude toward inflation, and (4) consumer action.

The inflationary stimuli consist of past and current price increases as well as news about inflationary developments communicated by newspapers, television and radio. These stimuli lead to certain consumer perceptions regarding price trends: views of past price changes and expectations regarding future price movements.

Eva Mueller is Assistant Program Director, Survey Research Center, University of Michigan.

A student of psychology would not expect to find a close correspondence between the objective inflationary stimulus and people's perceptions of price trends. Rather, he would assume that past experience—whether of inflation or price stability—would modify people's perceptions. He would assume that some small price increases may go unnoticed, while others may appear larger than they actually are.

Obviously, many consumers do not have sufficient knowledge of the economic forces which generate inflation to know whether expectations of price stability are justified. However, learning does take place, and people's perceptions of inflationary tendencies are likely to change over a period of time in keeping with changing economic conditions.

Widely held opinion

Studies made at the Survey Research Center of the University of Michigan indicate that throughout the early postwar period most people believed that the upward movement of prices would eventually be reversed. The opinion, "What goes up, must come down," was widely held. Even in 1951, when most people foresaw short-run price increases, only a small minority believed that prices would be still higher in a few years than they were at the time. These opinions differed considerably from those held by many economists who were worrying about continuing inflationary tendencies in our economic system.

During the past two years, however, the resumption of inflationary pressures seems to have weakened the consumer's faith in long-run price stability. The idea that price increases are a chronic feature of our economy has gained more adherents, although it still is not accepted by the majority of consumers.

Attitudes toward inflation may be favorable or unfavorable; people may be alarmed, pleased or unconcerned. The dominant attitude is determined by people's perceptions of the price situation as well as by the economic and political conditions surrounding the price increases. Whether people feel that price increases are a good thing, a bad thing, or a matter to be ignored depends on (1) how they see the price increases—as large or small, temporary or permanent, as past occurrences or future trends, and on (2) such factors as the accompanying business conditions, the frequency of compensating income increases, tax changes and whether shortages are also expected. We may distinguish four situations:

• *Very large price increases expected.* Very large and pervasive price increases are dramatically

visible and have an important impact on people's thinking about their financial situation. In the extreme case, anticipations of very large price increases will lead people to feel that goods are a more substantial asset than money. The result will be a large-scale shift from saving to spending, including heavy spending out of past savings. Our Korean experience suggests that panic buying is all the more likely to occur if large price advances are accompanied by anticipations of war and shortages.

Create resentment

•*Moderate price increases which evoke resistance.* Price advances which are more moderate may create resentment among consumers and lead to resistance. Such attitudes toward buying emerge when many people fail to obtain income increases which match advances in the cost of living, or when price increases are not associated with growing prosperity. People then are apt to feel that the high cost of living is a hardship. The recession in consumer spending from mid-1951 to mid-1952 was brought about by such attitudes. Tax increases and the prospect of many years of cold war reinforced the feelings of hardship generated by price increases. The widely held notion that price increases might be temporary also may have helped to bring about moderation in spending.

•*Moderate price increases which do not evoke consumer resistance.* This case differs from case two, in that consumer behavior does not contribute toward a stabilization of prices. It will occur if moderate price increases are accompanied by widespread income increases, if cost-of-living adjustments in wages and salaries are expected, if the price advances are associated with good times, and if many people regard them as permanent. In this case, relatively active spending may accompany moderate inflationary pressures.

•*Very small price increases expected.* The notion that small and scattered price increases are occurring often meets with indifference by consumers, particularly if some income increases are occurring at the same time. In this fourth case, price advances will have little or no effect on the rate of consumer spending. Studies indicate that this situation has prevailed in the United States during most of the postwar period. The majority of the American people did not perceive inflation as a serious problem. Viewing the price increases which occurred as minor, and often temporary, their faith in the value of the dollar was not disturbed. There was little accelera-

tion in buying in anticipation of price advances.

The growing popularity of credit purchases is sometimes attributed to inflationary expectations. However, there is no evidence that such a casual connection exists. People's confidence in the stability of the dollar also has been evident in their investment choices. Life insurance, savings accounts and U. S. Savings Bonds still are favorite investments of the large majority of American savers. Under these circumstances, consumers were a stabilizing element in the economy.

Viewed in this manner, consumer reactions to inflation appear entirely rational. The concept of rationality advanced here is, however, somewhat different from the traditional economic concept of the rational consumer. Economists have tended to explain behavior by looking directly at the relationship between objective events like the inflationary stimulus and subsequent consumer behavior, while we have stressed the importance of intervening perceptions and attitudes as a basis for consumer action.

The task of analyzing perceptions of and attitudes toward inflation under different economic circumstances is far from accomplished. Particularly difficult is the problem of judging whether current price increases are viewed by consumers as being very large (case one), moderate (case two or three) or very small (case four). Needless to say, there is no clear line of demarcation between these cases.

If the future course of prices should seriously shake people's confidence in price stability, less moderation in spending and a shift of savings to equity investments must be expected. There is no danger of panic buying (case one) under present conditions. The real inflationary danger lies in case three: anticipations of moderate price increases which do *not* evoke resistance among the majority of consumers. If this situation should prevail, the susceptibility of our economic system to inflationary pressures will increase greatly. ■

Turn On The Windows

ELECTROLUMINESCENT WINDOWS, presently being developed by Westinghouse, are expected to produce "daylight" in the average home day and night. Experimentation involves transparent phosphors to be placed between sheets of glass with an electricity-conducting coating. During the day this glass would allow the daylight to come through and permit the viewer to look out, or in, in the customary manner. At night, however, electricity would be applied and the transparent phosphor would emit light.

Challenge Personality-of-the-Month

Inflation's Reluctant Defender

Professor Sumner Slichter believes that mild inflation is the only way of achieving maximum employment and economic growth

ONE OF the best-known economists in the U.S. is a gentle, white-haired Harvard professor. His name conjures up visions of monetary recklessness among bankers, businessmen and others who have heard of him but have never read his books. The man is Dr. Sumner H. Slichter; and his "crime," in the eyes of his critics, is his belief that, in the highly organized society of today, growth *must* be accompanied by some degree of inflation. Even his most severe critics admit in private that while they hope he is wrong, they have an uncomfortable feeling that he may be right.

What they object to is not the assertion that in the last 30 or 40 years inflation and growth seem to have gone hand in hand (this is undeniably true), but the implication that a certain degree of inflation is necessary for growth, and, therefore, desirable.

A frequent speaker before business groups and Congressional committees, Dr. Slichter has been charged with perverting the fiscal morals of "naive" business executives and legislators who want to avoid such decisions as keeping prices down, curbing public expenditures and resisting inflationary wage demands.

But a careful examination of his writings will show that Dr. Slichter is most emphatically *not* an inflationist—that is, one who believes that we should support and encourage inflation. He *does* believe that "although 'creeping' inflation is a cost that one would gladly avoid, it is also, in the present state of our knowledge, a cost that must be accepted to avoid evils that are greater than 'creeping' inflation."

Specifically, he believes that we

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

should not discourage technological progress because one of its effects is to increase demand for capital goods and thus create "creeping" inflation. Nor does he believe that we should "oppose aggressive and dynamic policies by unions simply because they tend to create 'creeping' inflation." Such cures, he thinks, are worse than the disease.

While this line of reasoning is debatable—and most economists would agree with Martin Bronfenbrenner (*see page 17*) that "creeping" inflation need not be an inescapable consequence of economic growth—it is not the aberrant sort of inflationism it has been pictured to be.

Indeed, Dr. Slichter's reputation as an inflationist is something of a mystery, for it is completely out of character with the man. One of those careful, pragmatic economists who get along fine with "practical" businessmen and labor leaders, he first established a reputation as a labor specialist.

Trained at the University of Wisconsin which, 40 years ago, was a center for "institutionalist" economics, Dr. Slichter was profoundly influenced by the writings of Thorstein Veblen and, even more, by economists John R. Commons and Wesley C. Mitchell. Dr. Slichter once described the latter as "the outstanding economist in the world during the 20th century." Since Mitchell was one of the least theoretical-minded of the great economists our century has produced, this estimate sheds much light on the type of man Dr. Slichter feels makes a good economist.

Institutionalists believe that we can learn more about economic life by studying the behavior of corporations, labor unions and government than such disembodied phenomena as prices, wages and interest rates. It is this institutional emphasis which has led Dr. Slichter to reach his conclusions on the secular inflation problem. By studying the actual behavior of such institutions, he has concluded that none of them, willingly, wants to incur the sacrifices necessary to check inflation. In the case of business and labor unions, moreover, he feels that this unwillingness to "swim against the tide" is perfectly proper. Government, on the other hand, does have a duty to pursue anti-inflationary policies, but not to the point of retarding progress, even temporarily. This is only possible at the cost of a moderate degree of inflation, which he feels can be limited to about 2.5 per cent per annum.

There is one hitch to Dr. Slichter's argument. Few economists believe that inflation *can* be kept mild. And if mild inflation comes, can "galloping" inflation be far away?—M.K.

Prices and Policy-Makers

by Edwin G. Nourse

Monetary and fiscal policy alone cannot stem the inflation tide

OVER THE 11 years in which we have been trying to interpret and implement the Employment Act of 1946, there has been a growing realization that the quest for "maximum employment, production and purchasing power" entails the danger of inflation. Specifically, concern lest the government might be pressured into inflationary expedients in order to keep employment very high, led to the introduction of a bill during the past session of the Congress which proposed to add this amendment to the Act's declaration of policy: "The agencies and instrumentalities of the federal government must utilize all practicable and available means to combat inflationary pressures as they develop within the economy."

Such a proposal raises two very complicated, controversial and interrelated issues. First, is any inflationary "pressure" whatever, even a mild surge toward a higher price level, to be combatted by "all the agencies and instrumentalities of the federal government?" Or shall they be used only to prevent drastic and persistent price rises—"runaway" inflation? Second, does the federal government, in fact, have powers capable of accomplishing either or both of these objectives?

It is my understanding that those who introduced this amendment wished to set up a pretty rigid price stability as the paramount objective of federal policy. Such an objective would, I suspect, soon be denounced as giving government policy a deflationary or "unfull employment" bias, and it is doubtful if such an interpretation of government policy would

be accepted. By linking "available means" with "practical means," the amendment rather adroitly suggests that the legal or technical existence of control powers and the possibility of their practicable and effective use may be two quite different things. In fact, both these aspects of inflation control must be kept in mind.

Steering a middle course

The record of the postwar period suggests that we have learned how to use our national government to safeguard the economy against runaway inflation even when operating at sustained high production. But the record also suggests that government does not have—or will not be permitted to use—powers that would keep the price level dependably stable. In other words, the fullness of employment that we demand seems to require the stimulus of rising prices—and incomes. Or, to put it another way, a persistently rising price level seems to follow inevitably from our present combination of corporate concentration, union labor power and an elastic currency system.

How can we steer a middle course between disruptive inflation and slack use of resources? For the last couple of decades it has been an economic fad to discuss this problem solely in terms of two government functions—fiscal and monetary. Although I shall state my position briefly on these two much-discussed functions, I should then like to pass on to a third and less generally emphasized function—namely, the government's role in shaping the institutions and practices of the private market.

An extreme position concerning the federal government's ability to control inflation is that of Alfred Neal, president of the Committee for Economic Development. In a statement before the Joint Economic Committee of Congress last February, he declared that "If we have inflation. . .it will happen because governmental authority has not been used to turn off the money spigot or to reverse the money pump. . . .Inflation cannot be controlled without controlling the money supply, and in a modern economy, government has that job." Now, in a very narrow sense it is doubtless true that the federal government has powers capable not merely of "combatting" inflation but of drastically controlling it—whether of the runaway or the creeping kind. If the government sufficiently pruned the public payroll or reduced the pay scale for civilians and military; if it abandoned the stockpiling of metals and farm products

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Edwin G. Nourse, a past Chairman of the Council of Economic Advisers, is a highly respected economics consultant in government and business.

to support their prices; if it cancelled procurement and construction contracts or lowered payments thereon, it could stop inflation in its tracks.

Certainly, if, in addition to such use of fiscal policy, monetary policy were invoked to curb inflation, prices could be kept from any further rise or even made to retrace some recent upward steps. If the Federal Reserve System turned off the money spigot by sharp enough raises in interest rates or reversed the money pump by raising reserve requirements or selling government securities in the open market, the price level would fall because of the drop in consumer and business demand. So Mr. Neal's statement is truth, and nothing but the truth. But it is not the whole truth.

Widespread shock

It does not mention the fact that such extreme governmental constriction of the money supply would entail a widespread shock to business activity. If many people were unemployed or pay envelopes reduced; if orders were sharply curtailed or profit margins shrunk, would the economy continue "business as usual?" The obvious answer is no. We would be very lucky if we escaped from the frying pan of inflation into the fire of recession. We would be more likely to be caught in a holocaust of runaway deflation and stubborn depression.

As to the monetary policy and action, there is a growing recognition among businessmen and economists that it is not the decisive factor or even a major weapon against inflation. Wrong policy or public action may be a contributory cause of inflation—as it was in the late Forties, when the Federal Reserve was pegged to an artificially low interest rate even though buyers' positions were liquid and civilian goods still relatively scarce. Good policy and timely action by the Fed (except in 1953) put it on the side of the angels as a counterinflationary force. Its policy of "leaning against the breeze" is a sound policy for our pseudocentral bank, and it reflects a becomingly modest recognition that it cannot abate a hurricane. Perhaps a more suitable figure of speech to describe the role of the Federal Reserve and the scope of monetary policy would be to say that it provides a "windbreak" for the economy.

Analytical studies

To appraise fairly what government can do to control inflation, we need to keep in mind not merely the mechanics of fiscal and monetary action but also the way in which government policy in these areas is arrived at. It is not determined merely by analytical

over-all Congressional and Executive studies of the functioning of the economy and its constituent parts—though such studies have a constantly larger part in our present governmental procedures. But it is also a vital part of our American system that these studies are supplemented, challenged, corrected, compromised or frustrated by the pulls of special interest groups and by devious political pressures. An ancient proverb has it that "in a multitude of counsellors there is wisdom." But I think that perhaps it is not so much wisdom that is the product of the pulling and hauling process as it is workability. In the process we learn not what, in a scientific sense, ought to be done, but, rather, what programs the mass of the people will accept, what conditions they will productively work under, what incentives they must have to save, what taxes they will pay without undue evasion or unmanageable revolt, what freedom they demand to take big credit risks, and the like.

Theory and reality

In monetary policy, this contact between theory and reality is brought to a high degree of objectivity through the statistical and research staffs of the Board of Governors in Washington and those of the 12 regional banks, plus the practical knowledge of the Board members and its advisory committees from the districts.

For fiscal policy, the Treasury staff, the various committees of the Congress, and especially the Joint Economic Committee and the Council of Economic Advisers in the Executive Office give a rich mixture of objective economics and practical politics.

The size of the fact-gathering and fact-analyzing apparatus we have provided is impressive. Probably the flow of statistical information runs ahead of our ability to agree on how this price-organized, free-enterprise system really does work and how it could be controlled to get sustained noninflationary prosperity. But the knowledge of the technical advisors and the administrators in government runs far ahead of the ability of workers, farmers and businessmen to understand the over-all economic process into which their private operations mesh.

Strains and slowdowns

When the capital-forming, investing, price-making, wage-setting and credit-extending policies and practices of the general market bring strains and slowdowns, all victims of the maladjustment turn to the government for relief. This relief must take the form of compensatory spending, tax abatement or soft money

—all inflationary. I do not expect private business operations ever to attain such perfection that government will not properly be called upon to exercise offsetting or balance-wheel functions. But in an economy of big organizational units, I do think it reasonable to expect business and labor organizations to show their economic sophistication and sense of responsibility by seeking to effect stabilizing rather than destabilizing adjustments. Such action would make easier the task of government to combat successive inflations and deflations.

Here I should like to touch upon the third function of government in promoting growth with stability—creating flexible and competitive market conditions that will bring about equilibrium between the two sides of the exchange process. It calls for reexamination of artificial price support and escalation mechanisms as well as of such concentrations of economic power as tend to create rigidities in the exchange process. During the last three or four decades, there has developed a widespread attitude among certain groups that free enterprise means giving free rein to Big Business and Big Labor to run whatever sort of power race or wage-price leapfrogging seems to serve their immediate special interests. Inflationary price rises become the escape hatch by which they avoid a showdown on the economic merits of their respective claims. Then they look to Big Government to invoke some magical kind of fiscal and monetary powers to maintain the stability of the economy.

Engine of inflation

While it is the responsibility of the federal government to combat inflation by refraining from deficit financing in boom times and to exercise a firm money policy when credit expansion outruns the savings base, it is no less its responsibility to employ such regulatory powers as will keep the market process itself from becoming an engine of inflation. The present Administration has shown a commendable resolution in keeping (precariously) in the black while confronted by cold war threats from abroad and hot defense demands from back home. To do this it has had to maintain stiff tax rates against the protests of the many who want to dance without paying the piper. The monetary authorities have also earned the gratitude and confidence of thoughtful people by their imperturable pursuit of stabilizing money-market conditions, while flexibly providing the funds needed by nonspeculative business in a fast-changing economy. I believe that if we will actually use what we have demonstrated in these

years in the realms of fiscal and monetary policy, we do not need material changes in institutions or theories.

This is not the case with inflationary pressures arising from the structure of the market. The government must take a fresh look and vigorous action in this area if it is to discharge its responsibilities in safeguarding the economy against chronic, even if moderate, inflation in the years ahead. Important as are the revelations of corrupt management in labor unions made by the McClellan Committee, I believe more important and alarming is the disclosure of the plans of the new president of the Teamsters Union to control "everything that moves on wheels" or in fact that moves —period.

Disquieting consequences

The price consequences of such control, linked with a cynical social outlook and economic illiteracy, are disquieting to say the least. And I have misgivings also as to the implication pricewise (and in the related issues of investment and technology) of a situation in which we see the automotive industry, so basic to our whole economp, gravitating into the hands of a Big Three (or, potentially, even a Big Two) with the kind of nonprice competition that that presages. If, as I suspect, this trend carries possibilities of cost-price inflation exceeding what we have already seen, the power and the responsibility to deal with it clearly resides in the federal government.

In a word, my answer to the question, "Can the federal government prevent inflation?" is: "Yes, *if* we, the people, will let it." We have to make continuous choices between a tenable *degree* of "full" employment and intensity of resource use on the one hand and, on the other hand, the price and income relationships that are compatible with that goal. This has sometimes been referred to as "reasonable fullness of employment with reasonable stability of prices."

That means a generally stable price *level,* while individual prices (and incomes) move up and down in flexible response to a competitive price-making and wage-setting environment. If we achieve this "growth with stability," the role of government in controlling inflation will not be to turn the money supply on and off according to a slide-rule calculation of an aggregate inflationary or deflationary "gap." It will consist in fitting its fiscal and monetary policies and actions both in volume and timing to the market relationships of a system of "free competitive enterprise"—which is stipulated in the Employment Act. ■

Gabriel Hauge

Special Assistant to the President For Economic Affairs

The Administration and Inflation

Q *Dr. Hauge, how does the work done by your office differ from the the function of the Council of Economic Advisers?*

A The President obviously has to pass on a great variety of economic issues. Some decisions take the form of making legislative recommendations; others take the form of final determination in administrative proceedings, such as, let us say, a recommendation from the U.S. Tariff Commission for a change in the rate of a particular commodity. This office is quite distinct from the Council of Economic Advisers, which is a body set up by law to be a kind of economic intelligence center for the Executive Branch, with the specific statutory responsibility of helping to prepare the President's annual economic report to the Congress. My job is to work with the Council, with the various departments and agencies, and with the other members of the White House staff. My office sees to it that whenever the President has to make an economic decision, he has before him all the requisite facts and agreed recommendations, if possible, and, if disagreed, the nature of the disagreement and a recommendation from this office in that matter. In all these efforts I have, of course, informal and constructive relations with the Council of Economic Advisers.

Q *Dr. Hauge, 1957 was a year in which inflation was prominent in the thinking of economists. What type of inflation has the Administration felt the greatest concern about thus far?*

A Inflation in its simplest meaning, is expressed by the phrase "ris-

ing prices." Now, as you know, prices rise for a variety of reasons, but basically for two interrelated reasons: first, because people who sell goods feel they can raise prices, since buyers are quite willing to pay more, there being more demand than supply; and second, because sellers of goods feel they *have* to get more, since costs of production have risen. This two-sided analysis of inflation in a simple form can perhaps be described as the "demand pull" of inflation and the "cost push" of inflation. I would say that we have been concerned about both aspects of inflation as represented by these terms.

A situation of paying ourselves more than we are producing

Q *How do you view the debate that has been in progress about the "wage-price" spiral?*

A Well, I would view it as a very healthy exercise in trying to get at one—but only one—aspect of this inflation problem. Between 1955 and 1956, our economy produced about 2.8 per cent more goods and services; that is, gross national product in constant dollars. On the other hand, we paid ourselves in terms of national income—including wages, salaries, rents, dividends, professional services, all these forms of income—we paid ourselves six per cent more than we had in the preceding year. So, it would seem that we are getting into a situation of paying ourselves more than we are producing from period to period. This is inflationary. I would say that discussion of the so-called wage-price spiral is very salutary because it brings home to people a basic truth—namely, that there is no slick gimmick that government can design and apply to insure economic growth with reasonable price stability that will obviate effort on the part of everybody else. Keeping our prosperity by keeping it healthy is everybody's business.

Q *Dr. Hauge, there are some important economists in this country who have stated that economic growth is not possible without some inflation. Do you agree with this viewpoint?*

A I am familiar with this idea. Sometimes it is called "creeping" inflation, and it has been said that this inflation is not only necessary in a situation of growth, but that it is desirable as a kind of lubricant for economic growth. I do not share that view myself. I think if you try to press the economic accelerator to the floorboard

in terms of getting every dollar of GNP out of the economy in every quarter, you are going to run into this danger of inflation. But I think that as long as there exists a basic confidence in the future (which I think we have in this country after the years of depression and war), with the public as consumers and workers, farmers and businessmen as individuals feeling optimistic about their jobs, plans and incomes, then I believe you've got the foundation for economic growth. I therefore do not believe that inflation is necessary to foster it. Now, as to whether it is inevitable, I don't think anybody knows. As a basic premise for government policy, however, I think it would be very bad to operate on the assumption that it is inevitable. I think we ought to operate on the assumption that we can have economic growth at an acceptable rate with reasonable price stability and that we shouldn't try to force the situation to the point where that twofold goal becomes unattainable.

The pressure of excess demand against inadequate supply

Q *What do you believe this Administration can and cannot do—and should and should not do—to combat inflation?*

A The effective way to deal with inflation is to deal with rising prices. We must take those steps that are available to keep money demand from running out ahead of the available resources which produce goods and services that can satisfy those demands. That is partially the responsibility of the Federal Reserve System; it is partially a function of the Treasury and its debt management operations; and it is partially a function of the Administration's budgeting, to make sure that in times of boom business activity, the budget is balanced or overbalanced. Beyond that, it seems to me that the Administration has responsibility for creating conditions that foster increased production. After all, it is an increased flow of goods and services against money that is fundamental to relieving the pressure of excess demand against inadequate supply. I think also that the taxation system should have regard not only for problems of personal equity but also should foster the investments in plant and equipment that make it possible for productivity to go up, and therefore wages to go up, in a real sense. I think, too, there is an obligation for a certain amount of adult educa-

tion. That was the kind of thing that the President called for in his Economic Report last January when he spoke of the responsibility of management and labor leadership in wage negotiations to keep the public in mind when making settlements.

Q *How about direct controls?*

A We have not subscribed to ideas of intervening in terms of price and wage and allocation controls in peacetime. We do not think that is a very acceptable procedure, except in times of war and emergency, when you have the support of the people, when they are willing to abide by these restraints upon their freedom.

Shall we have more or less government intervention?

Q *To what extent would you say we have a managed economy? After all, we do know that a certain amount of monetary controls are implicit in the operations of the Fed. We know that tax policy and debt management are constant tools of government.*

A Our economy today, perhaps largely as a result of a terrible depression and of two wars that followed, has been left with a legacy—not only of intervention by government in the economy, but of a certain kind of justification for intervention by government. The issue then is: shall we have more or less government intervention? The disposition of the President and the Administration has been to maximize the freedom of individuals and economic groups in our society. In that direction we have done our best to eliminate government competition with private businesses. With respect to labor, the policy of this Administration has been, except where something like atomic energy or the national health and safety were involved, to leave the determination of the terms of employment to collective bargaining, and not to seek to set wage rates in the White House or any place else in the Administration. We have sought to utilize rather than to obstruct market forces in the field of agricultural policy. We have sought to use monetary and credit policy to achieve growth with reasonable price stability.

Q *What about the Administration's so-called tight-money policy, which has been characterized in many places as hitting the small man*

hardest. We don't expect you to agree with that, but could you tell us why you would disagree with it?

A Well, first of all, you refer to the Administration's tight-money policy. This is a common description of something that isn't correct. The control of monetary and credit policy is in the hands of the central bank, the Federal Reserve System, which is independent of the Administration and is responsible only to the Congress. Inasmuch as the critics of this so-called tight-money policy are members of the President's opposition in the Congress, it is interesting that the Congress has not even considered a directive to the Federal Reserve System to change its policy. The Congress alone, of course, has the authority in our government to give such a directive, because it created the Federal Reserve System and the System is responsible to it, and it alone. But, having said that, I want to say this: the Administration has been in sympathy with the broad outlines of this policy of credit restraint in an attempt to keep demand in step with the resources available, and to keep from substituting bank credit for savings in the investment programs of this country. Now, when people speak about tight money, I presume they have in mind money that is harder to get and costlier than it was at some earlier time. Since the Korean war, as in other postwar years, we have had a period of very active demand for capital and credit to carry out the various plans of private industry, of consumers, and of state and local governments. This has placed pressure on the supply of capital and credit, and, as in the case of any other scarce item, that pressure is registered on the price barometers. We have had a rise in interest rates.

Q *But are the interest rates too high today?*

A When you look at the level interest rates have reached, they are not high except by the standards of depression and by the standards of wartime under artificial controls. Interest rates such as we have today, it seems to me, are an index of the activity and vigor of our economy, of the enormous demands of the people on our capital and credit supplies to carry out all of the plans for building and investing as well as the confidence of consumers in spending their incomes.

Q *What economic problems are most likely to bear watching, in say, the next six months? Deflation talk in many places is beginning to displace inflation worries.*

A The economic outlook of today is filled with more crosscurrents than trends. We have some indicators pointing up, some pointing down, and some pointing straight ahead. There is some evident relaxation in the pace of activity. But on the whole it would seem to me that we are looking ahead to a period of generally good activity, but without the degree of upward pressure on the economy that characterized events at this time last year. Underlying growth factors remain strong.

Q *Is there a chance for such a slowdown that outright deflation will hit us?*

A Anything can happen, of course. The possibility you pose of a sharp downward turn in total economic activity would have to grow out of developments not now evident or likely. Sufficient facts are available now (November 1, 1957), however, to indicate again the need for continuing flexibility in public policy.

Q *What about the next decade?*

A I think that we continue to face, over the long pull, the problem of inflation. I believe that we face a decade ahead in which we shall be trying to overuse rather than underuse our economy—a decade in which there will be a shortage of labor rather than a surplus of labor. This may not always be true in every year or every quarter in every year, but I'm talking now about the basic problem. I think the whole question of how much we pay ourselves for the work we do, which is the relationship of our input to our wages, salaries, rents, profits—that is another problem of the future. Agriculture is also one of the problem areas we shall have to face for a time to come. We must consider, too, the whole problem of the expansion of our foreign trade as more nations come forward in their economic development, and as some of the older nations of the world undergo revolutionary changes in their consumption and production patterns. These are some of the problems I see ahead.

Changes in the problem of defense expenditures are inevitable

Q *How about the defense effort? For a while, at least until a few weeks ago, it seemed that cutbacks in defense might hurt large segments of the economy.*

A The prospect for a radical decline in our defense expenditures from their present level of around 40 billion dollars does not seem feasi-

ble, particularly in view of recent developments. Of course, changes in the pattern of our defense expenditures are inevitable and highly desirable, since we must keep up to date with the latest scientific achievements. But even if through some unforeseen radical developments substantial cuts should become possible, the effects on the economy need not be detrimental. We have gone through, in recent years, an experience in this field of rather considerable scope. In the second quarter of 1953, we were spending for defense purposes of various sorts about 60 billion dollars. That was while the Korean war was still on. In the second quarter of 1955, two years later, that figure had declined by 25 per cent to 45 billion dollars. Yet the economy was larger in the second quarter of 1955 than in the second quarter of 1953—more people at work, more production, more income. Therefore, I think we have had experience which suggests the tremendous powers and capabilities of the economy to adapt to changes of that sort, even though, of course, for particular industries the impact could be quite severe and would present certain transition problems.

Q *We haven't mentioned specifically such things as the Employment Act of 1946. Would you summarize what you feel the responsibility of the government should be to the economy of the country?*

A The responsibility of the government to the economy of the country is, of course, defined by the Employment Act of 1946, which this Administration wholeheartedly accepts. It accepts it particularly because of the emphasis in the act upon promoting high employment, production and incomes in a way that recognizes the values of the private enterprise system. We believe that is the only way you can effectively achieve the goals of the Employment Act. I think we have seen that except in times of war, when we have extraordinary conditions, private confidence is a much sturdier force for prosperity than public expenditures. The Administration believes in going after the objectives of the Employment Act in a way which releases the capacities of the American people to make jobs for each other, rather than to look to the federal government to do it for them. We do not think that always waiting for the federal government to take direct action is a wise or adequate solution to economic problems.

Q *Thank you, Dr. Hauge.* ■

Everyday Economics

If you keep a budget, chances are you think you're thrifty. But many who work hard to make ends meet and save every week, do not get their money's worth. Here are a few misconceptions about thrift:

•*It pays to buy a new car instead of making major repairs on your four-year-old car.* Not always. Depreciation on a new car is about 25 to 30 per cent the first year. If you are buying a 3,600-dollar car, that is about 1,000 dollars. So it probably will pay you to repair the old car (which has already depreciated 75 per cent of its sale price by now) and drive it a few years longer.

•*It pays to borrow on your life insurance because the interest is lower.* The interest is lower, but if you die before repaying the policy loan, you leave your family with less protection than originally planned. Instead, borrow from a bank, where interest is likely to be as low as you would get.

•*If you know the rate of interest charged, you can figure out just what your loan or time payment plan will cost you.* Don't count on it. Interest rates are quoted in different ways. For instance, if you borrow 100 dollars for a year at four per cent discount, you really pay eight per cent simple interest. In addition to interest, many lenders add on investigation, insurance and handling fees. An easy way to find out for sure how much credit is costing is to multiply the *amount* of each payment by the *number* of payments, add on any down payment you make, and then subtract the cash price. The difference is the cost of financing.

•*Revolving credit plans are thrifty because they help you limit your purchases each month.* False. Most stores charge 1.5 per cent per month on the balance due. That's 18 per cent a year. Some charge late fees on past due accounts—up to an extra 1.5 per cent per month. It's thriftier to pay cash and save your credit for items that hold their value, such as a car, furniture or household appliances.

Heating all outdoors?

HEAT is forever finding its way out of your house —through doors, windows, walls, ceilings and roof. Heat loss through a square foot of window glass is several times as great as through a square foot of wall. You can't prevent this loss of heat, but you can reduce it by proper insulation. Insulating the attic floor of a house 25 by 30 feet can save up to about 200 gallons of fuel oil a year in a severe climate, or about 25 dollars at present prices. Storm doors and storm windows will also reduce heat loss. It will take you time to recover the cost, but you will be more comfortable while waiting for your investment to "pay off."

Some hints for the road

IF YOU want to sell your car, you can get an idea of its value by either (1) checking used-car want ads for prices of cars of the same make, model and equipment as yours, or (2) by checking with several dealers who handle your type of car to find out what the difference in price is between it and a new model with the same equipment. Used-car prices generally reach their peak in the spring, level off during the summer, drop rapidly as new models appear in the fall, and *hit bottom during the winter.*

Tires should be filled when cold. Watch for uneven tread wear; timely check and correction can mean thousands of extra tire mileage. Another tire-mileage "stretcher" is rotation, about every 4,000 miles. Your best buy is rayon-cord construction; rayon is the only cord that grows stronger as tire heat builds up, yet it's the lowest-priced cord in common use.

There's more to winterizing your car than just putting some antifreeze in the radiator; be sure the cooling system is clean and leak-tight; flush the radiator and the cooling system thoroughly to be rid of dust and grease. And *don't* leave the same antifreeze in your car year after year; rust inhibitor lasts only one season.

'Tis the season to be merry

IF THE needles of a Christmas tree are not moist to the touch; and if, when the tree is shaken, some needles fall off, then the tree is old and dry and not a good buy. To keep your tree fresh with that pine scent throughout the holidays, cut an inch or so slantwise from the trunk, then stand the tree in water. Natural moisture is the best means of "fireproofing" a Christmas tree. *Merry Christmas* and *Happy New Year.*—D. H.

Economics in Action

forecasters' fugue

The economy approaches year's end with a controlled discordance that succeeds in avoiding any cacophonous notes that would clash with Christmas carols and New Year's hopes. This is due to a number of elements that are irregularly starting and stopping. Thus, the national budget promised a hold-down on spending, but government agencies, in the main, went right on spending. On the other hand, the Pentagon did cut back on military contracts, particularly with aircraft companies. Now the new "scientific" crisis promises a cut to the cutback.

free fall

Business and government leadership has not, however, lost its capability of maintaining direction over the major factors. It has given a somewhat greater freedom to the economic nature of things because of certain priorities. Administration leaders did definitely permit a slowing of the upward thrust because they wanted to reduce the accretion of inflationary factors.

slow freight

Some sectors of the economy endured dizzying gyrations. Machine-tool orders were down 40 per cent from 1956. Freight-car loadings fell to 80 per cent of capacity in the last quarter of this year. Such sensitive indicators could promise disaster if they set the tone. But these slumps are measured against a recent past of extraordinary development that could not maintain itself under normal circumstances. Moreover, the economy as a whole has a strong counterrhythm.

delayed reactions

The stability of the economy in 1958 depends on the orchestration of various lags. The expanded missile and basic research programs may not of themselves require great expenditure increases, but they will induce heavier spending for other military goods as well as for military personnel. Pessimists predict

a five to 10 per cent fall next year in business capital outlays from the 37 billion dollars estimated for this year. But they expect the consumer response to remain stable, refusing to follow a decline in business spending. This will permit other bull factors to take effect in general and quite possibly increase capital outlays eventually.

foreign trade

One of the most buoyant sectors of the economy has been our foreign trade. In three years, American merchandise shipments reached the 17-billion-dollar level in 1956, up more than 40 per cent. The annual rate this year has been above 20 billion dollars. In the main the rest of the world has been buying more because it is richer and wants to consume more; the long-term trend is upward. But certain elements like post-Korean shortages and the Suez crisis have worked themselves out and have, moreover, caused an inflation in foreign countries that must now be suppressed. The immediate results may be a perceptible slackening of world demand for U. S. goods.

reserve powers

The Federal Reserve was given the task of fighting the inflationary rise. It raised discount rates, and business scaled down expansion plans so promptly that the Fed has recently felt forced to reduce rates in some areas. Prices have certainly not achieved stability, but it is impossible to control economic effects to the shortest hairline. It is important, however, that the Federal Reserve now has the maneuverability to turn in either direction easily. Should a slump generalize itself out of the delimited sectors where it is appearing today, the Federal Reserve officials can quickly achieve an easing of the money market. Optimism and pessimism are presently eyeing the discount rate with half-articulated demands, while skepticism asks if all the Fed's powers are powerful enough.

* * *

WASHINGTON—The nation's capital will not recover from the shock of Russian scientific progress

time and money

until something spectacular can be displayed to the world in the way of a U. S. space vehicle. Time is short. All the piecemeal work that has been done thus far has to be brought together and combined into an effort that can place a satellite 1,000 miles in space. We must anticipate other spectacular Russian feats during the six-month period that we have in which to do the job. It would be too much to expect that we can demonstrate the controlled re-entry of a space vehicle before the Russians. We don't know how far the Russian program has advanced. But bringing the satellite back is what we want to do. And we have only until next March or April to prove that we can, or almost can, do it. The National Research Council is being relied upon heavily to marshall the brain power. This is a crash program that must make good if the U. S. is to regain damaged prestige throughout the world and some peace of mind at home. In spite of the conservative public estimates of the cost of such a program, the fact is that work will proceed at top speed *regardless* of how much it costs.

pay, or else

The cost of government will go up, not down. The President's barnstorming around the country is designed to do two things: buck up morale, and get the public accustomed, in some measure, to the sacrifices that will have to be made. All hope for a tax cut next year is gone. No one is going to worry too much if a budget surplus does not develop. In fact, it will be a miracle if this year's budget is not exceeded by at least one billion dollars next year. An increase in some excise taxes is a certainty. A slight increase in personal income taxes is a definite possibility. The big fear of the Administration is that it will be forced into deficit financing if various pressure groups raise too much of a hue and cry. This expediency will be resisted by the President until and unless no other way seems possible. The fate of the economy and of the nation hangs in the balance. The prevailing belief now is that the nation will pay-as-we-go.

balancing act

The UN Disarmament Commission is in a hopeless tangle. It is unlikely that the Soviet Union will cooperate with any arrangement endorsed by the world body. Khrushchev thinks his satellites have given him the strong hand, and what he wants is a bilateral arrangement with the U. S. which by-passes the UN. This is another reason why we have to push our missile program. Disarmament talks will have a better chance should the U. S. regain a position of equality.

crowded checkerboard

The reluctant decision by the U. S. and Great Britain to ship arms to Tunisia was a calculated risk. The French reaction was expected. But it was felt that France would see the move as an invitation to end the fiasco in Algeria. France's participation in NATO is about nil, and we want French forces back in Europe. The bargaining has now begun. If American good offices can be used in Algeria, in the form of generous aid dollars, perhaps the Algerian nationalists can be induced to negotiate a "gradual" liberation plan with France. The geopolitical checkerboard is crowded with pieces that are being reshuffled rapidly to cope with Russia's new prestige. The appointment of an over-all foreign aid chief is but one U. S. move. The World Bank's conversations with Nasser is another move. To get France out of the quagmire of Algeria is a third move. To increase the West German role in NATO is a fourth move. To build a completely coordinated science program with Great Britain is a fifth move.

stubborn key

There is a sixth move that might be made, but this is the most difficult one of all—namely, an approach to the East European satellite countries. The Communist governments there, particularly in Poland and in Hungary, are in deep trouble. Any signs of strength from the West could bring new problems for Russia. Right now our biggest concern is over Tito of Yugoslavia. He is the key to the satellite countries, but a tough one to turn. ■

Economists in the Soviet Union have as much trouble explaining inflation as dealing with it in their planned economy

Rebel in Russia

by Alexander Gerschenkron

THE SOVIET ECONOMY is a high-investment economy. This is another way of saying that it is a low-consumption economy and that most of its problems, including that of inflation, derive from this characteristic.

Between 1928 and the present, Soviet industrial output has increased at least sixfold—a very rapid growth. How was this result achieved? The government did it by a two-front economic action. It penned the peasantry within the collective farms. This arrangement enabled the government to obtain agricultural produce at nominal prices, without having to offer the peasants much of a *quid pro quo* in terms of industrial consumer goods. The Soviet regime simultaneously exerted strong pressure upon the real wages of Russian labor.

We know now that the rapid growth of industrial output was paralleled by a *decrease* in real wages. A quarter of a century after the initiation of the first Five-Year Plan, real wages (in terms of what basic consumer commodities could be bought) were at least 10 per cent and perhaps as much as 35 per cent below their 1928 level.

This policy of keeping down the levels of consumption has made it possible for the Soviets to use very large portions of national income for the purpose of adding to the capital stock—i.e., for digging mines, constructing factories and building machines. The whole centralized planning and supervisory machinery of a totalitarian government was directed to that end.

The system has operated without any significant lapses from full

employment. While there have been variations in the rate of growth from period to period, a business cycle does not exist in Soviet Russia in any specific sense of the term.

Does this mean that the Soviet government has been equally successful in controlling inflationary pressures? The answer is that it has not. Russia did experience a very strong wage and price inflation which began in the early Thirties. While it is true that the years after the war, specifically after the currency reform of 1947, have been characterized by price reductions, there are now growing signs that the country again stands on the threshold of an inflationary period.

This may seem surprising. Why should an economy which is the most rigidly regimented economy on modern record be subject to the vagaries of inflation?

The Soviet economy is a "money" economy. All goods produced have official prices assigned to them, which, as a rule, are supposed to cover the planned cost of production plus a certain rate of planned profit. Workers receive their wages in money on the basis of "norms" predetermined for the individual types of work they do.

If income earners could spend *all* their incomes on the purchase of consumer goods at given supply prices, there would be no problem But this is obviously impossible because a large part of consumer income is earned in producing goods which cannot be consumed, like investment goods and armaments.

The high rate of investment means that, unless something is done about it, too much money chases too few goods. The gap, given unchanged prices, would constitute a suppressed inflation —that is, the cash accumulations of the consumer would be rising from year to year, making it more and more difficult to keep wages stable and providing great temptations for black market transactions. In addition, the so-called collective farm market prices, which are set by demand and supply, would register large increases. Very soon, incentives to work and to earn money would begin to weaken, as current incomes would grow smaller and smaller compared with cash balances held.

One way to bridge the gap and to obviate the dangers of suppressed inflation is to use an income tax to wipe out the surfeit of purchasing power in the hands of the population. But an income tax would have to be progressive and would tend to cancel out the very

Alexander Gerschenkron, Walter S. Baker Professor of Economics at Harvard University, is a leading student of Soviet economic trends and events.

progressive wage scale which the Russians maintain in order to keep up incentives. For this and other reasons, the Russians have only a mildly progressive income tax, which produces a relatively small revenue.

Mainstay of the system

The mainstay of the Russian financial system—the device designed to avoid the emergence of an inflationary gap—is what is known as a turnover or sales tax. An indirect tax of this sort is, of course, regressive in that it falls mostly with necessities which bulk large in low incomes. There is no doubt, moreover, that the turnover tax is a rather crude device and cannot be expected to operate with precision. Yet the system, at least in theory, should suffice to eliminate most of the currently accruing excess of purchasing power. Why, then, did the system fail in some periods?

The main reason lies in the basic policy of keeping the rate of investment high and the rate of consumption low. The problem of incentives to work is one of the central problems of the Soviet economy. But the use of the natural and most effective incentive, a prospective increase in the standards of living, is precluded by the very policy of restricting consumption. In the absence of any real improvements in the levels of consumption, the Soviets had to provide the *semblance* of such improvements in terms of increases in money wages without any concomitant increase in real wages. In short, they played upon what is known as money illusion. As we all know, as long as the depreciation of money does not assume a runaway tempo, the eyes of people tend to remain riveted to the nominal rather than the real value of their incomes.

In addition, as is inevitable in an expanding economy, there were shortages of labor, and the managers of industrial enterprises were eagerly bidding for labor, using manifold devices in order to disguise their accounting the higher wages actually paid. This was possible, despite all planning and regimentation, because the ability of central authorities to supervise what is happening within the individual enterprises is limited. The Soviet manager enjoys some degree of freedom which, however precarious, is nonetheless quite real.

The inevitable result of this situation was a rise in prices as a consequence of higher production costs. Thereafter, turnover taxes had to be raised to siphon out at least some of the unforeseen increases in the nominal purchasing power of the population.

It is sometimes said that, under Soviet conditions, inflation does

not affect the productive processes of the economy. True, inflation in Russia does not end in a slump. But the proposition is still a very dubious one. It ignores (1) the effect of inflationary pressures on the policies of industrial managers who tend to hoard scarce raw materials in order to achieve "unplanned profits" and receive the premiums and promotions that follow in the wake of such achievements; and (2) the great difficulty central authorities have in checking upon the fulfillment of the plan. This is particularly true with regard to the utilization of resources in accordance with the plan in conditions of changing prices of production goods. A task which is difficult under any circumstances becomes much more so in conditions of price and wage instability.

Reduced money holdings

Yet the years after 1947 were free of such pressures and prices of consumer goods were reduced rather than increased. What were the reasons?

First, the very drastic currency reform of 1947, which confiscated nine-tenths of the accumulated cash balances, probably not only did away with the hangover of suppressed inflation, but also reduced the people's money holdings *below* their normal level so that they were only slowly built up again in the following years.

Second, the supply of consumer goods at the end of the war had dwindled to a minimum. With money holdings drastically reduced by the currency reforms and the supply of consumer goods being restored to prewar levels. For a number of years the population did enjoy real and not merely nominal increases in their standard of living.

Third, on the eve of the war, the Soviet government prohibited unauthorized job changes by the worker. That law, though introduced as an emergency measure, was retained until a short time ago. Thus, for many years the managers could no longer bid competitively for labor that was tied to the factories in serflike fashion.

Fourth, it must be assumed that the Soviets have succeeded in improving the methods of supervising the financial activities of industrial enterprises. They have reduced the funds of enterprises in relation to short-term credits granted by the Central Bank. Such credits carry an interest charge and, in addition, the Central Bank is supposed to refuse funds in excess of expenditures foreseen in the plan.

Inflation was avoided for a decade because of these four *special* reasons. But only the last one remains today. Despite all prom-

ises to the contrary, future increases in consumption will be very moderate at best. It is also fairly clear that the Central Bank can exert some restraining influence, but it hardly can combat strong tendencies toward overexpenditure, particularly on the wage account, if such transgressions are necessary in order to maintain incentives and production growth. The recent decentralization of Soviet industry in all likelihood will make it even more difficult to supervise the size and structure of expenditures made by individual firms.

On the other hand, the policy of a very high rate of investment continues unabated. In fact, the share of investment in total national income must be assumed to be a good deal higher now than it was in the Thirties. This is the natural result of letting "heavy" industry grow at a faster rate than "light" industry. As income grows, very large portions of annual increments are used for investment purposes.

Nature of the system

It could be argued that this policy of "investment for investment's sake," of producing machinery in order to produce still more machinery, flows almost naturally from the very nature of the Soviet political system—that is, from the mechanics of power under a totalitarian system.

This would mean that the Soviets will continue to pursue their traditional economic policy as long as the dictatorship is able to retain its strength and vitality. No doubt, the events which followed the death of Stalin have rendered the political situation much less stable than it had been before. It is possible that the dictatorship may eventually find itself weakened to a point where it will abandon its policy of high investment and embark upon a policy of rapid increases in the levels of consumption. But, so far, there are signs to adumbrate such reversal of policy.

This much appears to be reasonably clear: The period of price reductions came to a close some time ago. Labor supply is short. Agriculture is no longer the vast reservoir of industrial manpower it was in the Thirties. There are signs of intensified competition for labor among industrial managers. Significant increases in consumption are still blocked by the high rate of investment.

Once more it may seem tempting to spread the veil of money illusion over the paucity of consumer goods. Barring a fundamental change in policy, it looks as though the stage were being set now for the reappearance of inflationary pressures in Soviet Russia. ■

INFLATION

at home and abroad

by Gardner Patterson

Other countries have experienced inflations that make ours seem modest

INFLATION is everywhere today. No country, no type of economy, no form of government, has avoided rising price levels and the resultant unplanned, and frequently unwanted, redistribution of incomes. The United States, with its cost of living doubling in the past 20 years, has suffered less inflation than all but a handful of other nations.

Price comparisons among nations differing greatly in types of goods produced, and in the organization of their economic life, are often almost meaningless. Still, a look at 40-odd countries from all continents for whom cost-of-living data are readily available shows that prices have gone up a great deal in every single case—from Japan to Sweden, El Salvador, Egypt, Canada and Australia. For the world as a whole, the cost of living on the average has at least tripled, and probably quadrupled, in the past 20 years. It has increased by at least 50 per cent in the past decade and by from seven to 10 per cent in the past four years.

Of course, the averages conceal wide differences among individual countries. Swiss prices, for example, have increased by only 75 per cent since 1937, while the cost of living in Brazil has increased twelvefold. In Greece, inflation reached such heights at one stage that all existing currency was simply declared worthless and a fresh start was made with new money. Similarly, during the past four years prices in Chile have quintupled, while those in Ceylon appear to have fallen a tiny bit.

These national inflations have taken different forms at different times and in different countries. For several years after the war, the two major types were commonly called "open" as opposed to

"latent" or "repressed" inflation. Open inflation was simply a rapid rise in the general price level as the public's money incomes expanded rapidly along with their desire to buy more things than were available. The latent or repressed kind characterized a situation where price controls were reasonably effective so that prices quoted on the market remained relatively stable. At the same time, people with funds and the wish to spend them could find no goods to buy at these prices.

A few remnants

In many countries remnants of repressed inflation still exist, the most frequent instances being house rents, various public utility services and selected imported goods regarded by the authorities as essential. But these instances of repressed inflation are now relatively rare.

Today, markedly rising prices are the most characteristic form of inflation. Now, open inflation does not mean that all prices go up equally. In response to specific production costs and the public's demand for the particular goods or services, some prices fall, some remain stable and others rise. But, on the average, they keep going up. Sometimes the inflation is, for a time, concentrated primarily at the wholesale level; sometimes it is retail prices that are increasing most rapidly; while at other times, all prices move up together. There is also a special type of inflation caused by the efforts of governments to help certain groups of people, such as farmers, by setting floors under prices at a higher level than the open market would have established.

There are many special reasons for this world-wide inflation, but there are a few major causes recognized by all. For many countries, the inflation during the period 1937-1947 was primarily the result of governments creating new money—both cash and bank deposits—in efforts to maintain civilian consumption at decent levels and to expand production for war and defense purposes. These monetary efforts frequently exceeded physical capabilities, and the result was inflation. Indeed, during those years, nations which did not suffer some form of inflation would have been open to the criticism that they were making something less than the full effort the war required.

In the years immediately following World War II, a dominant factor in many countries was the urgent desire of the public to use wartime-accumulated savings to buy some of the new goods then appearing on the market and to

Gardner Patterson is Director of the International Finance Section, Princeton University.

replace worn out or obsolete equipment, appliances, clothing and cars. Since it took most economies time to reconvert to large-scale civilian production, money demands increased faster than available supplies. Inflation was the natural result.

After the war, most of the industrialized nations of the world made the maintenance of full employment a major objective of government policy. But all too often the authorities have found that the way to achieve this desirable goal was for the government to see to it that there were more jobs to be filled than there were men seeking jobs at the going wage rates. Inflation is both a way of achieving this and an inevitable result of such a policy.

Special treatment

The early postwar years were also times when many governments were weak. The authorities easily gave in to demands for special treatment by all sorts of groups: farmers, manufacturers, soldiers and civil servants. The cost was often a heavily unbalanced budget and a very easy credit policy by the banks. Result: inflation.

In 1950, the Korean war, with its greatly expanded military expenditures, gave a new inflationary impetus to many economies. Skyrocketing prices for all sorts of strategic raw materials intensified inflationary effects in both buyer and seller nations.

Just as full employment became a primary objective in the highly industrialized countries, so "economic development" became *the* economic policy goal in most of the underdeveloped areas. With some exceptions, most of the underdeveloped countries embarked on overly ambitious investment programs. Through easy bank credit policies and outright budget deficits, they spent more money on economic development projects than there were idle resources available. Just as in the more advanced countries, "too much money chasing too few goods" creates inflation, no matter how praiseworthy the objectives of the spending policy may be.

Inflation that has become so widespread, that has lasted so long, and that has been so constant suggests that there may be some common self-generating forces at work.

Inflation does spread among nations. When prices go up in one country, other countries buying from it often find that their imports cost them more. This in turn gives rise to inflationary pressures in their economies. Moreover, inflation in one country means higher money incomes, which, in turn, will result in an increased demand for the export-

able goods of other countries, thus creating some more inflationary pressures in its trading partners.

The spread of inflation in this manner is relatively unimportant for the United States, although housewives will remember the effect on their budgets of soaring coffee prices a few years back. Many manufacturers will also recall what happened to their costs (and so to the prices they charged) during the post-Korean boom in the international markets for raw materials.

Disastrous effects

For most countries, however, imports are of much greater importance than they are in the United States. In several Western European nations, imports are equal in value to 20 to 30 per cent of their total production. For these countries, higher prices abroad can have disastrous effects on internal costs and prices. It has been persuasively argued that rising import prices accounted for about a quarter of the inflation Britain suffered during the years 1946-1954.

It is a common complaint in many of the so-called underdeveloped countries that the United States must bear a large share of the responsibility for their inflation. In the postwar decade such countries have depended heavily on us for imports of all kinds, and the prices of these exports have reflected our inflation.

Evidence is accumulating in many countries that one of the main pressures on money wages is prices during the *previous* period, and that these prices in turn are importantly determined by previous costs in labor and materials. Thus, once a nation inherits a rising price level, whether because of the higher prices it must pay for imports or because of some internal policy of its own, there is a strong tendency for the generation of a sequence of price rises in subsequent time periods. This hypothesis does not deny the influence of changes in demand on prices, nor does it make it impossible for a nation to halt an inflation once started; but it does help explain why inflation has lasted so long and is to be found in so many countries.

Inflation creates trade problems largely because the inflations are greater in some countries than in others and affect different goods in different ways. A major contributing cause of trouble is that nations often do not readjust their exchange rates—the price of other countries' currencies—every time relative price levels or demand conditions vary significantly.

Assume that a country is suffering a higher degree of inflation than most other countries, but is tenaciously holding on to the pre-

viously established exchange rates. Exporters in this nation are now in trouble, for their prices to the foreigner go up as compared with those of competitors from other countries. Imports, on the other hand, become very popular in this country, as the prices of foreign goods become progressively cheaper in relation to domestic substitutes. This decline in export earnings, coinciding with an increase in spending for imports, depletes the nation's foreign exchange reserves and tends to create unemployment in the export industries. Those domestic industries competing with importers for the local buyers' money also suffer.

Faced with this situation, it is common for the government to impose or extend its direct controls and restrictions over both exports and imports. Moreover, the nation's exporters and importers and its government are under great pressure to engage in foreign barter deals in an attempt to circumvent the difficulties caused by too high prices.

These conditions have often meant that trade with the Soviet bloc has increased, because these countries find it relatively easy to arrange bilateral barter deals. Most of their foreign trade is already in the hands of government authorities.

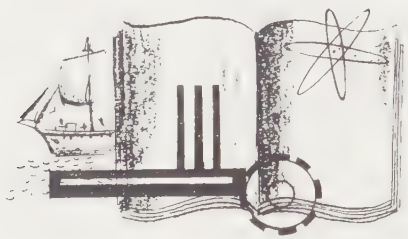
Thus the international effects of inflation are complex. Foreign trade is diverted from its normal channels and deteriorates in quality. Very likely a decline in the amount of trade also occurs. Government intervenes more and more in export-import decisions, and the West increases East-West trade.

World inflationary phenomena make an impressive case for trying harder than we already have to stop the upward movement of prices which has characterized the past generation all around the globe. It will not be easy. ■

Answers to Challenge Quiz

(See page 79)

(1) True *(see page 68)*
(2) False *(see page 45)*
(3) False *(see page 8)*
(4) True *(see page 17)*
(5) False *(see page 39)*
(6) False *(see page 23)*
(7) True *(see page 32)*
(8) False *(see page 63)*
(9) False *(see page 58)*
(10) True *(see page 73)*
(11) False *(see page 13)*
(12) True *(see page 27)*



The Permanent Frontier: No. 3

Diversity and unity characterize life in early colonial America

"What then is the American, this new man? He is either an European, or the descendant of an European hence that strange mixture of blood, which you will find in no other country. I could point to you a family whose grandfather was an Englishman, whose wife was Dutch, whose son married a French woman, and whose present four sons have now four wives of four different nations."
—H. St. J. de Crevecoeur.

In the middle of the 17th century, the struggling young American colonies resembled more closely our conception of the Wild West than they did the thickly settled European countries from which they sprang. Subsistence was precarious, and life was dangerous. As the white man pressed upon traditional hunting grounds, the Indian retaliated with sporadic border raids and occasional full-fledged wars. Although the power of the settlers grew as immigration continued, the peak period of migration into the Massachusetts Bay Colony during the years 1630-1642 had yielded only 16,000 new immigrants. Numbers were so small and life so hard that it was by no means certain in the year 1650 that the settlements would survive.

Home bases were 3,000 miles away across a dangerous ocean. Settlers were menaced by hostile Indians, and before them was always the prospect of involvement in wars whose causes were in Europe but whose effects were in Canada and the colonies. Moreover, the political organization of the colonies was fluid. In 1655 the Dutch had ejected the settlers of New Sweden. Nine years later the Dutch under Peter Stuyvesant surrendered New Amsterdam to English rule. In 1650 many of the original 13 colonies were yet to appear. A charter was granted to Connecticut in 1662 and another to Rhode Island and the Providence Plantation in the following year. Eight proprietors received title to the Carolinas in 1663. But it was not until 1681 that William Penn received title to Pennsyl-

vania, and not until 1733 that the last of the 13 colonies, Georgia, was established.

The century from 1650 to 1750 saw the colonies develop from embryos to articulated political units. Yet, at first glance, little in the character of this growth suggested future unification and independence. The motley collection of proprietors and chartered companies was actuated by diverse motives, among them profit, religious freedom, philanthropy and national prestige.

Separated from each other ideologically by differences in religion and political organization, and physically by slow and inefficient communications, the colonists displayed even greater diversity in their economic pursuits. Roughly speaking, we can think of three different areas whose resources and activities differed considerably: New England, the Middle Atlantic colonies and the South.

In 1650, New England was a farming community. The farms were small and individually owned, varying in size from 10 to 100 acres. It was not until about 1700 that the unpromising, rocky soil of the region produced even a small cash crop.

As time passed, New Englanders developed, with their legendary ingenuity, a variety of lucrative industries. The fur trade in bear, raccoon, mink, and, above all, beaver, gained importance, especially after the settlers learned how potent rum was for barter with Indian trappers. Shipbuilding, fishing and whaling—the pursuits of the sea—also became New England specialties. In the fertile Connecticut Valley, a milling industry prospered. Surpluses were small, however, and for the bulk of her manufactures New England had to rely on old England. But the line of specialization which the region was to follow was started even this early.

In New York, New Jersey and Pennsylvania the pattern was more complex. The Dutch patroons, so affectionately described in literature by Washington Irving, had lived on large estates and had granted their tenants nothing better than copyhold tenure. When the English superseded the Dutch, they endeavored to preserve this modified version of feudalism, but with small success. In Pennsylvania, William Penn had made an effort to distribute land on very easy terms to independent farmers, but his descendants had been otherwise disposed. Family farms in Pennsylvania ran up to 200 acres in size and great estates to several thousand acres. Although in these three middle colonies the cash crop was more important than

This is the third article of a series in CHALLENGE which deals with the history and development of the United States economy.

in New England, in both areas general farming was the rule, and home production of furniture, clothing, soap and candles, the necessity.

The leading industrial activity of the region was Pennsylvania's ironworks. This industry is important as an illustration of the beginnings of factory organization. It was primarily an industry which produced rough products: pots and pans for domestic use, and bars for the fabrication of axes, hoes and shovels. Hardware remained an English monopoly.

Agricultural activity

We may be astonished to learn that this industry was located not in a city, but in the midst of farming country. Its headquarters was the "plantation." Here on several thousand acres were not only iron mines, but also workers' houses, gristmills, sawmills, furnaces and forges. Much of the activity, moreover, was agricultural. Food was grown and fiber was transformed into clothing. Because capital was scarce, ironmasters paid their employees largely in food and housing. The status of such workers possessed an uneasy mixture of free market and feudalistic characteristics.

Conditions in the South contrasted sharply with those of the other two regions. Here commercial agriculture and the cash crop assumed their greatest importance. Maryland and Virginia tobacco and South Carolina rice required the large plantation. Accordingly, we find in the South the large plantation measured in thousands, not hundreds of acres. Such plantations needed a large supply of labor capable of working under a searing sun. The enormous shortage of labor and the reluctance of whites to work under semitropic conditions combined to decide the destiny of the South as the employer of slave labor. Although the Middle Colonies had their estates, and New England its wealthy merchants, only the South developed an aristocracy of its own based on the plantation and the slave. The independent yeomanry of the South fought a losing battle against it.

We may well ask what community of interest could exist among plantation aristocrats and New England merchants, or between either and the independent yeoman farmers of the North. The natural market for Southern surpluses was in Europe, for the North could neither consume them nor offer in exchange the manufactures which the South craved. There was little the Anglicans of the South could find to admire in the joyless Puritanism of the North. As for the Puritans, how could they avoid censuring the frivolity and the godlessness of the Southern aris-

tocrats? Ways of life, economic interests, climate and political organization divided far more than they united.

Yet, a short generation after 1750 these 13 colonies, tolerably united, revolted against a common enemy. What made them act together? What compelled them to regard England as the enemy?

The answers are partly economic. South and North alike saw much to resent in English policy. If the markets of the South were in Europe, England, by compelling trade with Englishmen, frequently deprived the South of much of its profit. Moreover, English prices for manufactured goods were high, and Southern planters, better noted for their hospitality than for refined cost accounting in their business affairs, found themselves usually in irksome debt to their English factors. And the terms of trade were usually adverse.

Catalogue of grievances

The catalogue of Northern grievances was even longer and centered around the practice of British mercantilism. Mercantilist theory regarded colonies as places where raw materials should be grown and manufactured goods should be shipped in exchange. When the colonists created their own manufactures, they violated both articles of faith by narrowing the English market for finished goods and diminishing the flow of raw materials to English industry. The 17th and 18th centuries are, from one point of view, the history of English efforts to enforce, and American attempts to evade, the Navigation Acts, as these laws were termed.

Fortunately for the growth of American manufacturing, enforcement was sporadic and cyclical rather than steady and unremitting. The years 1651-1674 represent nearly two decades of attempted enforcement. Acts passed within this period required the shipment of colonial products to England in English ships, enumerated the items that could be exported at all, and demanded that European articles destined for the colonies must go to England first and there await reshipment. The Act of 1673 disturbed trade among the colonies by placing duties on sugar, tobacco and other products shipped across colonial borders. This was a frank effort to reinforce colonial sectionalism by preventing the development of commercial ties.

The Molasses Act of 1733 was a full-scale attempt to curb an important New England activity. After 1715, sugar production in the French and Dutch West Indies increased and sugar prices there accordingly dropped. New England traders saw nothing more natural than the purchase of

sugar, molasses and rum in these foreign islands, in exchange for their own manufactures. Obviously, such trade injured the sugar planters of the British West Indies who felt themselves threatened with losses of capital, fixed and human. They complained to their government, and Parliament levied prohibitive duties on sugar and molasses imported into the colonies from any but British sources.

If colonial hostility at restrictions of this kind reached a high pitch only after 1763, it was because only after that year did the British make an all-out attempt to match enforcement with the stipulations of their laws.

But economics fails to explain completely the growing cohesion of the colonies. They had another common grievance against England: the recurrent Indian wars in which they were engaged. Now, the colonists themselves had done much to arouse the Indians whom they had robbed, cheated and maltreated in a manner which was to become the beginning of a long and unfortunate tradition. But even when intolerable grievance did not arouse the Indians to violent action, the French very likely did. In King William's War (1689-1697) the French and the Indians had massacred colonists at Schenectady, Salma Falls and Casco Bay. The French and Indian War (1755-1763) was the American reflex of conflicts between the French and the English over essentially European questions. It was no satisfactory answer to the colonists to say that British troops protected them when British actions created the need for the protection.

Here surely is one of the sources of that persistent isolationist strain in American political thinking which found classic exposition in Washington's Farewell Address. Here also was an opportunity for Americans to get to know each other in defense against common enemies and in mutual resentment of wars.

In 1750 the 13 colonies were not united. Nor did one or even two generations complete the job, for sectionalism is not yet dead. But they shared the experience of pressing the frontier of settlement further west. Their resentments had come to be the same. Their economic interests were beginning to be more compatible as the New England economy started to buy Southern staples and its industry began to produce manufactures in exchange. What was lacking was only some final uniting acts of oppression—political, economic or both—to turn impatience and evasion into defiance and revolt. The next 25 years provided these acts. ■

NEXT MONTH: Thirteen colonies become one nation

In spite of steadily rising price levels, there has also been a remarkable improvement in standards of living

Inflation and GROWTH

by Arthur R. Upgren

THE AMERICAN PEOPLE have established two economic objectives for themselves, economic security and maximum economic growth. The former will protect Americans from want and requires the prevention of depressions; the latter will provide an advancing standard of living by means of economic expansion. The two objectives are frequently welded together in a single goal: stable economic expansion.

Prior to the great depression of the Thirties, the people of the United States took economic growth as inevitable, and in return accepted economic depressions as similarly inevitable. Thus, there was very little attention paid to economics and the profession of the economist was hardly known.

With the depression experience ablaze in memory, people then demanded measures to promote economic security. No political party thereafter could attain power without pledging firm effort to this objective. The Thirties had inflicted terrible damage to the American people. "It should not happen again" was the national resolve. The fact that massive unemployment in the Thirties was followed by "overfull employment" in the Forties showed the way. Unemployment at 12,830,000 in 1933, persisted into 1940, with the number of unemployed still 9,480,000 in 1939 and 8,120,000 in 1940.

Then, with massive government spending for war, this abiding, hard core of unemployment of the Thirties was converted into a mere 670,000 unemployed in 1944. Furthermore, the five million hidden unemployed on farms in the 1930s were entirely converted into a growing labor force for war production.

Here then is the violent change in environment which indicates the general climate in which Con-

gress debated the Wagner-Murray full employment bill during the war years. The first Congressional discussions concerned this bill as proposed by Democratic Senators Wagner of New York and Murray of Montana. By the time the war had ended and the act was coming to an appropriate form for passage, the Republican party had taken control of both houses of Congress. But the bill had to be passed regardless of its Democratic origins. It was stripped of Congressional guarantees of jobs for all, restricting its promise to "high productive employment," and changed in title from "The Full Employment Act" to "The Employment Act of 1946."

Test of "overfull"

By the time antidepression procedures were developed and understood, we had attained the overfull employment of 1946 through 1948. The test of "overfull" involves having all the labor force employed, but at rising wages and rising price levels. Now we had full employment, but at the price of inflation. The rising prices, or inflation, of 1946 through 1948 should be attributed to the wartime experience and costs even though this inflation occurred after the war had come to an end.

Prices have shown more stability than a superficial glance might indicate. The Consumer Price Index, as based on 1947-1949 prices, tells a modest tale. Thus, consumer prices fell four per cent from August 1948 to February 1950, from an index figure of 104.4 to 100.4. During a subsequent 18-month period, from March 1956 to September 1957, the price rise from the index of 114.7 was 5.5 per cent.

Thus, we can say that from 1948, we have had an 18-month period of falling prices and an 18-month period of rising prices. This is hardly "creeping" inflation. It is true that the index rose 10 per cent from February 1950 to March 1951, but this one-year interval covers the outbreak of the Korean war. Thus, it is far from being the "peacetime" period that should serve as a base for the study of full employment under normal conditions.

The consumer price rise was only from 110.4 to 114.7 from March 1951 to March 1956, or 3.9 per cent spread over five years. Thus, a rise of less than one per cent annually took place, with most of it occurring in the first year. Indeed, the four-year period from 1952 to early 1956 would probably qualify as the steadiest price experience the United States has ever enjoyed.

Thus, inflation has not been the

Arthur R. Upgren is Frederic R. Bigelow Professor of Economics at Macalester College, St. Paul, Minn.

rule. If wartime conditions are eliminated, we can record an early fall of four per cent, a later rise of 5.5 per cent, and between the two, a five-year period of remarkable price stability. During the war, price controls had "suppressed" inflation. They were then dropped, and the resulting inflation was easily financed by the 100-billion-dollar enlargement of the supply of bank deposits.

Twin objectives

Thus, our peacetime experience with the management of maximum high productive employment without inflation hardly can be considered to have started until 1948. Including that year we have had 10 years experience in attaining the twin objectives of freedom from depressions and sustained economic growth.

High employment, rising employment and a brief spell of moderate unemployment characterized the entire 10-year period from 1948 through 1957. Unemployment did rise to a peak of about 4,600,000 in late 1949 and early 1950, and in 1954 rose again, this time to about 3,750,000. These levels of unemployment are higher than we wish, at about six and five per cent respectively for the labor force. Nevertheless, in neither period was the unemployment even seasonally "abiding." The question is: To what extent has the employment been "productive?"

Gross national product and income levels showed a remarkable rise during the 10-year period. The gross national product, as measured in 1956 prices, went from 302 billion dollars in 1948 to an estimated 418 billion in 1957. Personal disposable income, in 1956 prices, rose from 210 billion dollars to a projected 288 billions from 1948 to 1957. Most of this income went to workers who could thus enjoy a great increase in real wages and well-being during a period of rising prices.

Statistics thus reveal a growing economy, an increasing total output and steadily increasing rewards for all the major sectors of the nation. We were able, moreover, to achieve the great increase in production while our workers were getting better and better wages. Thus, we were living in nearly the best of all possible economic worlds. Other nations had to endure privations while providing enough investment funds to establish a broader industrial base. We got new steel mills and roads along with washing machines and bowling alleys.

Over the entire period there has been persistent expansion in total output and personal incomes with which the rising output has been purchased. Thus, we have succeeded, in this first postwar peri-

od of 10 years, to a remarkable extent in achieving "high productive employment" with a minimum of inflation of prices. The record could have been only modestly better, but it could have been immensely worse.

In the entire period we have had a balanced budget, and the national debt has hardly increased from the 275-billion-dollar level, while the gross national product has gained substantially.

In the management of an economy, achievements cannot always be secured with precision and exactness. We have won, from 1948 through 1957, a large increase in our total product and productivity, while we paid a modest price in rising prices. There is certainly very little evidence that the rising prices were the *sine qua non* of the expanded total national output. That output expanded largely in years which prices remained exceedingly stable.

Price inflation is mostly the consequence of wars. In the United States, we have had several periods of declining prices which were much longer in duration than the periods of rising prices.

Prices, as a "trend" over the entire period, moved downward from 1815 to 1861 and from 1865 to 1896, with an upward break during the Civil War. The only sustained period of price advance we have ever had in peacetime was from 1900 to 1914. There was another advance, from 1914 to 1920, this time as the result of war. Then the trend from 1920 to 1939 was downward. The next great war produced a rise from 1940 to 1948, followed by a brief decline before the Korean war. The brief inflationary burst of the Korean period was succeeded by a stable period and, finally, by the 18-month steady increase that brings us to today.

Thus, history shows that prices rise during wartime, but that peace usually has other effects. Price declines are certainly more common under normal conditions. We must, therefore, not permit ourselves to be too much influenced by our immediate experience of inflation. History has a more moderate judgment.

The last 10 years are widely deemed to have been favorable to price inflation because of wage policy, high government spending and an abundant money supply. Yet the inflation record is mild. For the future, we have reason to be as much concerned with the possibility of falling prices as we do with the possibility of inflation. ■

Subterranean Steampower

BY THE end of 1958, New Zealand expects to produce 69,000 kilowatts of electric power by harnessing underground steam.

READING REPORT

Responsibility in Mass Communication. Wilbur Schramm. 391 pp. New York: Harper & Brothers. $4.50.

•A Stanford University journalism professor marches his army of data and citations round and round his objective, but he fails to sound the note that will bring the walls down. Prof. Schramm is rightly concerned with the problems of irresponsibility and vulgarity in our mass media, but he inclines heavily to worry about the hackneyed situation of influence wielded by private corporations. He plucks at various aspects of the bigger problem of public responsibility, but he can produce no more viable a solution than an agency "to represent the interest of the public as a whole." How can this be possible as long as the public refuses to be homogenized?

* * *

Mao's China. Ygael Gluckstein. 438 pp. Boston: Beacon Press. $8.50.

•Gluckstein's labors have amassed many second-rank facts and more or less trustworthy statistics, but they have failed to communicate the total reality of Red China. The reader learns how much steel Mao's land is probably producing; he does not learn what this vast state is accomplishing with it. Gluckstein places little emphasis on the effects of Russian technology and, more particularly, Russian technicians in the Chinese development. He inclines to the belief that China's tremendous poverty is too big a lump to respond aptly to the leavening. But Soviet Russia proved with herself the effectiveness of a brutal will on a backward nation.

* * *

The Administrative State. Fritz Morstein Marx. 202 pp. Chicago: The University of Chicago Press. $4.00.

•The subtitle, *An Introduction to Bureaucracy,* is a more accurate description than the title of this agreeable excursion in the bureaucratic world. Despite electronic machines and excessively efficient carbon paper, the principles of government administration have not changed since tax collectors began totting up their first returns in the Tigris-Euphrates valley. Marx fails to erect any concepts of a magnitude to match his title, and the reader never learns what the administrative state is. His bureaucratic ideal is a group of uncommon men carrying out with distinction their responsibilities to the common man.

* * *

The Teamsters Union. R. D. Leiter. 304 pp. New York: Bookman Associates. $5.00.

•The International Brotherhood of Teamsters illustrates what happens when a burgeoning industry produc-

es temptations faster than a sense of responsibility. The shame of the Teamsters reflects not only on the union leadership and rank and file, but also on the employers and a society that permitted too much and participated not a little in forbidden games. Leiter, a City College of New York economics professor, has made a useful but pedestrian study, which does not go very deeply into such matters as the mechanics of union power and the techniques used by the Becks and Hoffas to keep the membership cowed and contented.

* * *

The Illusion of the Epoch. H. B. Acton. 278 pp. Boston: Beacon Press. $6.00.

•Insulated with cool objectivity, Professor Acton of the University of London gets his title from a Marx-Engels phrase which they applied to other propounders of historical theories, and which he neatly applies to its originators. Prof. Acton shows how Marx developed his concepts from the scientific positivism of August Comte and the dreaming dialectics of Hegel. Prof. Acton explains with clarity and grace how Marxism hopes to establish a world "where there is administration without law, planning without miscalculation, direction without domination."

* * *

The American Way. Dexter Perkins. 141 pp. Ithaca, N. Y.: Cornell University Press. $2.75.

•The author, John L. Senior Professor in American Civilization at Cornell University, has written a sensible and well-organized book. He does not come to any new or startling conclusions, but that does not seem to be his purpose. *The American Way* covers the four predominant attitudes in American thinking: conservatism, liberalism, radicalism and socialism. Prof. Perkins clarifies the differences among them and discusses their origin and significance. He examines these four attitudes in relation to government power, the social order and both domestic and foreign policies. The essays are helpful in that they give historical perspective to *isms* whose precise meaning cannot clearly be understood in any other way.

* * *

Economic Concentration and the Monopoly Problem. Edward S. Mason. 411 pp. Cambridge, Mass.: Harvard University Press. $6.00.

•Professor Mason is an expert on the "monopoly problem." In many respects, his comments on this controversial question are among the sanest that have been advanced to date. While he does not deny there has been a tremendous increase in the size of the typical business firm in the last 50 years, Prof. Mason is not convinced there has been a similar increase in business concentration. Even if there has, he feels that this would not have any necessary bearing on the monopoly problem. After all, markets have also expanded, both geographically and productwise, and even highly concentrated industries must face up to the problem of technological obsolescence as competitors destroy "safe" markets by inventing superior substitutes. But, while he does not believe that the case for growing business concentration has been proven statistically, Prof. Mason sharply disagrees with those who think this is sufficient reason for relaxing antitrust efforts. The maintenance of competition is still, he believes, a valid ideal for 20th-century capitalism. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 67.

(1) Colonial industry was located in the midst of farming country.
True ☐ **False** ☐

(2) The wage-price spiral is the cause of current inflationary pressures.
True ☐ **False** ☐

(3) Bank-credit inflation is not usually as serious as paper-money inflation.
True ☐ **False** ☐

(4) Truly effective action against inflation must necessarily disrupt traditional concepts of production, wages and profits.
True ☐ **False** ☐

(5) The government could easily cut inflation with present fiscal and monetary controls.
True ☐ **False** ☐

(6) There is a direct relationship between administered prices and the direction and magnitude of price change.
True ☐ **False** ☐

(7) Periods of extreme price advances can lead to high consumer spending.
True ☐ **False** ☐

(8) Inflationary trends in other countries are an advantage to our import trade.
True ☐ **False** ☐

(9) Growth in Soviet productivity has been accompanied by an increase in the purchasing power of the worker.
True ☐ **False** ☐

(10) The only sustained peacetime price advance in the U.S. has been from 1900 to 1914.
True ☐ **False** ☐

(11) Inflation has not had any adverse effects on the inherent balance of powers among interests and social groups.
True ☐ **False** ☐

(12) Real wages have not increased as much as productivity.
True ☐ **False** ☐

DEPT. of BETTER MOUSETRAPS

From the World of Industry: A collator that gathers up to eight sheets of paper at the rate of 16,000 sets an hour. . .A spray-on enamel, available in a broad color range. . .A polyester film that can be bonded to a variety of metals to provide a colorful, durable finish. . .Inexpensive, disposable paper sandals, coated with polyethylene resin, that protect feet from bacteria and dampness in shower and pool areas. . .For the small industrial plant, a less-than-two-lb.-weight air sampler (with built-in power source) that detects chemical contamination. . .A completely safe paper cutter that makes straight and bevel cuts; it perforates and scores.

* * *

Around the House: *A liquid coating that reduces breakage and resists scratching of glass, ceramic, enamel, metal, rubber and plastic ware; permits faster cleaning, prevents sticking, and sheds liquids. . .An aerosol garbage can deodorizer that controls odors caused by bacteria and decay, and destroys flies and maggots. . .For the perennial gardener, a bulb-planter of finished steel that penetrates to an 11" depth . . .A flower-holder that keeps blossoms fresh much longer than conventional holders. . .A wall-mounted toothpaste dispenser that emits a brush-length of cleaner and accommodates any size tube; it eliminates lost caps and waste.*

* * *

The Home-Workman: An ice- and snow-melter that generates heat without harming vegetation, rubber asphalt and paved surfaces. . .Also, a liquid, applied with brush or roller, that protects concrete surfaces from salt damage. . .A spray coating that prevents snow from sticking on power snow throwers, plows, shovels and pushers. . .A door lock with a chain that can be released with a key from the outside or adjusted for indoor manipulation only. . .A drill extractor that allows jig or set-up to be undisturbed when broken-off twist drills are removed.

* * *

Children's Corner: *A 4'-long, 15"-wide molded fiberglas toboggan; it weighs less than six lbs. and requires no waxing or varnishing. . .An ant's entire world seen through clear plastic walls of an escapeproof "ant farm."*

* * *

Stocking Stuffers: A swimming puppy that winds up and splashes just like a real dog. . .A pineapple that holds an apple that holds a peach that hides a grape that has a strawberry. . .A musical jump rope.

* * *

Portable and Handy: *A prefabricated, all-steel building that comes in 15 major pieces that are easily assembled in just a few hours with only a screwdriver and wrench; it can be used as a tool house, garden supply house, a cabin for fishermen, campers, hunters, or, it can be turned into a mobile unit; it measures 8' x 11' at the eaves, and 7'4" by 10'4" at the base.*

* * *

Write to CHALLENGE Magazine for additional information. ■